PROCEEDINGS

OF THE SIXTH ANNUAL

Institute on Accounting

Held at

THE OHIO STATE UNIVERSITY

MAY 21 AND 22, 1943

Sponsored by

THE DEPARTMENT OF ACCOUNTING

COLLEGE OF COMMERCE AND ADMINISTRATION

THE OHIO STATE UNIVERSITY

Edited by

THE BUREAU OF BUSINESS RESEARCH

THE COLLEGE OF COMMERCE AND ADMINISTRATION

FOREWORD

The Sixth Annual Institute on Accounting, held at The Ohio State University on May 21 and 22, 1943, indicated the necessity of technical conferences in a war period. All sessions were devoted to current war and/or post-war problems, and the interest was as great as in previous years. The Department of Accounting wishes to express its appreciation to those who participated in the Institute, because travel and living conditions were not of the best and everyone was inconvenienced to a certain extent.

The technical papers were up to the standard of previous Institutes, and they indicated serious thought on the current problems facing the profession of accounting. It is gratifying to the sponsors to find that capable speakers were willing to spare the time to prepare such valuable technical papers.

The attendance far exceeded expectations, and was about equally divided between accountants engaged in public practice and those employed by private and public enterprises. Various governmental agencies were well represented, and it is hoped that their interest continues, because there must always be very real understanding of the common problems of government and industry.

The Department of Accounting
The Ohio State University

CONTENTS

FIRST SESSION

FRIDAY, MAY 21, 1943—2:00 P. M.

Commerce Auditorium

Chairman:

WYMAN P. FISKE, *Professor of Accounting, Massachusetts Institute of Technology, Cambridge; President, The National Association of Cost Accountants*

Address: "Control of Labor Costs in War Production"

MAX M. MONROE, *Comptroller, Inland Manufacturing Division, General Motors Corporation, Dayton*

Address: "Anticipated Post-War Accounting Problems"

JAMES L. DOHR, LL.B., C.P.A., *Professor of Accounting, Columbia University; Partner, Greene and Greene, Counselors at Law, New York; Director of Research, American Institute of Accountants*

INTRODUCTORY REMARKS

By WYMAN P. FISKE
Professor of Accounting, Massachusetts Institute of Technology, Cambridge; President, The National Association of Cost Accountants

It is my privilege to open this session, the first session of the sixth of a series of successful and distinguished Institutes on Accounting here at The Ohio State University. We of N. A. C. A. have cooperated in most of these Institutes, each of which has made a very real contribution to the accounting profession. We are very happy to join again in this year's program.

During the last 25 to 40 years, accounting, and particularly industrial accounting, has steadily increased both its contribution to industry and its importance. During the last 10 years, the responsibilities of the profession to the public, as opposed to management and the owners of business, have taken on a new significance. We have recognized a responsibility to all who have any interest, direct or indirect, in American business. Because of the general recognition of that responsibility, our profession has gained a new acceptance.

It seems to me significant and worth pointing out that the conditions under which we do our jobs have changed substantially in the last 25 to 40 years. Accounting got its start as a service to the owners of business. In those early days, the ownership of business and the management of business were synonymous. Industry was truly privately owned, and those who owned the business were in the vast majority of cases the active managing group. Now, within the period to which I refer, that condition has changed. So far as the important industry in this country is concerned, we have public ownership rather than private ownership. We have ownership distributed through a wide group of stock-holding and bond-holding investors. At the same time, and as a necessary corollary, a sharp division and distinction has appeared between ownership on the one hand and management on the other.

Under these conditions those of us who are concerned with accounting find ourselves in the position of serving at least two masters. We serve first of all the owners of the business. In addition, we have come to recognize an obligation to a separate management group. As far as industrial accounting is concerned, and most of the problems with which we are concerned here in this Institute are problems of industrial accounting, the greatest advances have come in the direction of developing a service to management as managers. As a result of the first World War, as a result of the development of social legislation, and now as a result of the second World War, we have had tremendous increases in taxation and broad extensions of governmental regulation. Both of these have necessarily been based upon accounting information, and have put accountants in the position where they must necessarily recognize the obligation to the taxing and regulating bodies within the government. Further, in the last 10 years there have been important developments in the industrial-relations area. There have appeared strong unions and strong bargaining groups led by individuals who are intelligent, who know how to read financial statements as well as accountants do, and who are taking advantage of their bargaining position to make a claim upon any profits which we report in our particular companies.

Finally, there has been an increasing public interest in profits. We must recognize, whether we like it or not, that industry operates by sufferance of the public. The public is showing an interest in the amount of profits both as consumers and as taxpayers who foot the bill for the almost incomprehensible war outlays. These changes have resulted in a tremendously broadened interest in accounting figures. We find that the public's attitudes on profits are assuming tremendous importance. They cannot be neglected. The attitude of the public is at once tremendously discouraging and at the same time a challenge to us, as accountants. A recent statement summarizes this attitude pretty well: "70 per cent of the American people believe that extravagant profits are being made out of the national emergency and that profiteering is prevalent. A full third of the American people believe that increases in profits represent the major reason for increases in the cost of living as against only 18 per cent who attribute them to increases in taxes. These and similar recent findings of public surveys make it obvious that companies engaged in war work must expand and shop in their technics of telling their profit story."

It appears, then, that the cost concepts and the profit concepts which we hold—these two concepts are irrevocably tied together—and the policies which we follow, based upon these concepts, are assuming a new importance under a new and very general interest in business profits. It seems to me we have an obligation as a profession, an obligation which we have not met too well, to explain our attitudes more fully to the public. We have spent a lot of time talking among ourselves discussing these questions. The time has now come when we must tell the story more broadly and explain to the general public what costs mean and what profits are, and what is the general social significance of each.

It would seem that one of the things which might well be done in these days, particularly in view of the attitude of so many people that profits are extravagant, is to direct the public to a greater and closer attention to costs as opposed to profits. Profits in any case are a small part of the total sales income. The major part is cost, and I am sure it would be worth-while to direct the attention of the people to costs.

Sufficient emphasis and sufficient recognition have not been given to the fact that our national standard of living is due in no small part to the effort of our forebears in laboring and saving a capital fund. This immense capital fund has been applied through tools to improve the productivity of the American working man, and, through his increased productivity, to increase his standard of living. Without that capital—if we can conceive for a moment that all that capital were destroyed—we would find ourselves back in the days of handicraft, and our high standard of living would disappear.

Costs to us, as accountants, are an accounting device to protect capital. Costs are a measure of the amount of the part of our total production which must be retained in order to replace the capital fund. Otherwise we could not continue to produce on the same high level and could not maintain our standard of living. The real significance of losses lies in the fact that a loss signifies a wastage of this capital trust fund which is so important to us.

We hear from time to time statements that the government can continue indefinitely on an unbalanced budget, and that it has not the need of business to watch costs, because it does not have to get its money back, as business does. Now that may be true if you look at a section of the government, but if you recognize the government as really being us, all of us, I think it is fairly evident that no country, no matter how rich it is, can operate indefinitely on anything less than a break-even basis. No country can operate continually at a loss for that means consuming more than is actually produced and depleting the capital fund. The inevitable result would be a decline in the national standard of living. Those people who express no interest in devices to protect capital fail, in too many instances, to realize that they risk throwing away the basis for the very high standard of living which they set up as an objective.

We, as accountants, have an obligation to tell, and continually to remind, the public that costs and cost accounting are not merely of selfish interest to private industry. We happen to be employed in most cases by private industry, but we have, also, a professional obligation. We recognize the other interests involved in the picture, and we know, and the public should be told, that costs and cost accounting play a tremendously important social part in protecting that capital trust fund which we have brought down from the past, the fund which has made and still makes possible our high standard of living, and upon the maintenance of which will depend whether we have a continued high standard of living in the future. We must at the same time re-examine our profit policies, because the policies and the methods by which profits are determined have a basis in the past and have their beginnings in the days when accounting was for a boss who owned and ran a business in which there was little or no public interest. If we take this approach, I think we have some small chance of changing the attitude of the public already referred to.

* * * *

The program of this Institute is largely concerned with industrial accounting problems. Industrial accountants can make, and I am certain that they are making, a very large contribution to the war effort by assisting management in its problem of getting out the war goods necessary for military victory. Management has never been more dependent than it is today upon accounting service provided by the industrial accountants employed by industry.

In many cases, management is in the difficult situation of manufacturing products in which it has absolutely no background of experience. I was tremendously impressed at one time when I heard one of the large automobile manufacturers make the statement that, in effect, his large concern, which does nearly a billion dollars worth of business a year, was forced to liquidate its entire normal business in 18 months, and then within about the same period develop an entirely new business of an even greater volume. Under such conditions, management needs help. It needs information which only accountants can provide.

Our job has many phases—there are many aspects of it—but there is no phase of it, in my opinion, which is more important than the problem of control. There is considerable talk going about that standards, budgets, and many common control technics are no longer of importance. Even admitting that certain technical devices formerly used are no longer available it is still true that industry, instead of needing less control, needs today more control than it has at any time in the past. Our first paper to be presented this afternoon is concerned with that problem.

Our first speaker has been continuously engaged in accounting and administrative work of one type or another for more than 30 years. His first position was with the National Cash Register Company. Later, he joined the Dayton Metal Products Company, and then, still later, the Wright Aeronautical Company. For the past 20 years he has been employed by the Inland Manufacturing Division, of the General Motors Corporation. In this particular organization he is divisional controller at Dayton, Ohio. His duties include not only those accounting responsibilities which ordinarily go with the controller's function but, in addition, include supervision of all labor relations, personnel, and educational activities.

Our speaker has long been active in the National Association of Cost Accountants. After having served in many capacities in the Dayton Chapter, and finally as president of that chapter, he was for three years a national director of the Association. His subject is "Control of Labor Costs in War Production." It is my privilege and pleasure to introduce to you, Mr. Max M. Monroe.

CONTROL OF LABOR COSTS IN WAR PRODUCTION

By Max M. Monroe
Comptroller, Inland Manufacturing Division,
General Motors Corporation, Dayton

The control of labor costs in manufacturing plants in this country had reached a high state of development before this war. This statement could be made, I think, to a lesser extent of the other elements of manufacturing cost, but labor was the first segment of the cost structure to receive the study of industrial managers, engineers, and accountants. We had wage incentive systems, various plans for measuring the output of workers, both productive and non-productive. The experience and skills of process engineers and equipment and tool designers had been concentrated on the improvement of the efficiency of the machines, the layouts, and the methods to provide for greater labor output. Of course, we weren't perfect—there was still progress to be made along various lines to further increase the efficiency of our labor—but we were pretty good.

Let us look for a moment at what industry generally had in those days with which to acquire and maintain this relatively high efficiency. In the first place, we all had organizations that had been built up gradually over a period of years. We had incentives, the profit incentive, and the incentive provided by competition, as well as the individual incentive to progress. We had years of experience, for the most part, in the manufacture of the products we were building.

Again speaking for industry at large, we had ample technical staffs—time-study men, and cost accountants with years of cost experience on the jobs that were being produced. We had plenty of material, we could get machinery and tools as we needed them, our methods had been improved and refined from year to year, and we had a good labor market.

Most of the men and women who worked in factories and offices were experienced. We had fairly high standards of quality for the labor that we added to our forces for replacements and expansion, and we had good management control of the discipline and efficiency of our employes. It is true that we may not have had as good control of the wage rate situation as we would have liked in the last few years, but we were able, most of us at least, to offset these increased wages by improvement in methods and in the efficiency of our operations.

A couple of years ago many industries were faced with the fact that they were going to be greatly restricted in the manufacture of the products they had been making, or in many cases be required to discontinue these lines of product altogether. At the same time, they were faced with the necessity of converting their plants and organizations to the manufacture of war products. The magnitude of the war program and the urgent necessity for haste presented tremendous problems to industry—problems which were tackled bravely in an all-out effort, and the results of these efforts have been remarkable. As a matter of fact, they are probably a great deal better than a lot of us thought they would be when we started. While we have done a good job in coming through with production ahead of schedule, as the saying goes, the problems arising from conversion have had an adverse effect on labor cost control as we knew it before. Let us look briefly at some of these problems with which we have to contend.

In the first place, many of us went to work on the manufacture of products that were new, products that were strange to us, requiring processes with which we were not too familiar. It was necessary in many instances to tear out production lines, equipment, and machine tools that we had been using for years, and to make new layouts, provide new tools and equipment, and develop new processes to do the job. Most of the products had never been manufactured in large quantities, and there was little previous experience on which to base estimates of their cost under mass production conditions. In many instances the job tackled was much larger than the job that had been done by the same organization during peacetime. Subcontracting was made use of to a much greater degree than in normal times. This added to the burden. Our organizations, to a greater or lesser extent, had to be rebuilt and expanded hastily. As a general thing our technical staffs could not be expanded sufficiently to do the same kind of thorough job that had been done before, due to the fact that the job was much larger, that it came all in a lump, and had to be done in a hurry. The loss of many experienced and trained younger men to the armed forces also contributed to this problem. We had the job of setting up an organization and training that organization to train the workers we had left in the use of tools, machinery, and processes that were not familiar to them. We also had to recruit a large number of green people and train them. There were delays in obtaining facilities such as machine tools, cutting tools, etc. The use of various materials was restricted, and there were delays in getting materials, which required a lot of time and effort to overcome.

As I said before, industry had a big job to do and it had to do it fast, and to hell with expense, at least until peak production was reached. The efforts of our managerial and technical staffs were concentrated on production, on getting the machine tools and equipment to do the job, getting it installed, getting the material in, getting the workers trained, getting production started, making products that would pass inspection, and keeping up with the engineering changes that resulted from the necessity of improving the products to keep pace with the equipment of the enemy. Many of us had a lot of new supervision which had been upgraded from the ranks and which was inadequately trained for the job. Our technical staffs of engineers and accountants not only had to try to take care of a larger job resulting from this high-speed conversion proposition, but also to cope with the various limitation orders, priorities, and the reports required by the various government agencies.

Another factor which tends to reduce the efficiency of labor in war production is the relative lack of incentives and incentive plans. Many plants had eliminated incentive plans before the war. While this tended to reduce efficiency and increase labor costs, the situation was more or less controllable because of the previous experience of the organizations in the manufacture of their respective products under previously established incentive plans. This is more difficult to do today because the products are new, the processes are to some extent unfamilar, and there is no previous experience on which to base reasonable standards. In many other plants where incentive plans were in operation on commercial products, incentives have not been installed on war work. The reasons for this are:

1. The difficulty of setting standards with a limited technical organization.
2. The frequency of changes in design and in processes.
3. The opposition to incentive plans on the part of labor organizations.

All this has tended to a lower tempo of production effort on war work, and this fact is becoming more generally recognized in government circles.

Furthermore, the labor market is inadequate. We have lost and are continuing to lose a great many men to the armed forces, and while we have been able, temporarily, to keep some of our skilled mechanics and so-called key technical and supervisory personnel, we have all lost, and are continuing to lose, a large number of men who were good workers and good employes. More recently, since farming has been declared an essential occupation, we are losing many of our unskilled and semi-skilled workers to the farm. Due to these losses and also due to the demands of our production schedules, we have been faced with a serious labor shortage which has been declared critical in many areas. Consequently, it has been necessary to employ a large number of women and men who had no factory experience. In order to man the jobs we have been forced to reduce our entrance standards for new employes. This has resulted in high labor turnover and abnormal absenteeism.

The matter of disciplinary control has become more difficult. This is partly due to the large number of new employes who have had no factory experience and who are unfamiliar with our regulations. It has been necessary in many instances to train these new employes in advance of having all of the actual tools and materials with which to work. During these so-called "pre-production" periods there could be nothing that resembled efficiency. As a result of the high rate of turnover and the difficulty of obtaining replacements of good quality, there has been a tendency, in many instances, toward reducing standards of discipline and efficiency, a tendency to put up with what you have because you don't know when you will get a replacement, and when you get that replacement you are not sure that it will be an improvement over what you have.

It has also been advocated in certain quarters that the control of discipline and efficiency of employes is no longer the exclusive responsibility of the Management, but has become, to a certain extent, the joint responsibility of Management and Labor. In many instances Labor has asked for, and in a few instances has obtained, an equal voice in the maintenance of discipline and in establishing production standards. In those instances, Management's responsibility has been passed on to others.

Another result of our labor scarcity and high turnover, etc., is the tendency on the part of some employers to raise wages without regard to the inflationary effects. In spite of the efforts of the War Labor Board, wage rates have increased considerably during the past year, and wage levels in certain areas and in certain industries are really alarming.

Let us now consider the possible bad results which we can expect from this situation—which we are all in, more or less—when the time comes to convert from war production back to the products of peace, and when we will all have to compete for our share of the peacetime requirements of the industries of which we were a part before the war. The excellent position in the control of labor costs which were enjoyed before the war did not just happen. It was brought about by the constant efforts of industrial managers, engineers, cost accountants, over a great many years; it was brought about through the training of supervision in the methods of cost control, and through the forming of habits of watching costs, from constant attention to the problem of obtaining greater labor efficiency. I don't think any of us want to come out of this war with organizations that have become sloppy as a result of forming bad habits of spending without regard for costs. It takes a lot more time and effort to form good habits than it does bad ones, and it takes still longer to root out bad habits and replace them with good ones. This applies not only to the supervisor but to the employe who is being supervised.

Neither do we want to go back to the competitive field of peacetime production to find that our labor rates are completely out of line with competition. If they are out of line it will not be easy, and it may be next to impossible, to bring them back into line. Furthermore, the recovery of that Management control over discipline and efficiency which we lose will be equally difficult. Now on this point I want to be clearly understood: I believe that collective bargaining is here to stay for a long time, and with collective bargaining properly administered I have no quarrel. My contention is that collective bargaining should be limited to those fields for which it was originally set up and not be permitted to extend itself into the field of Management.

Many of you may say that you do not believe that this situation is particularly serious, certainly that it has not reached the point to cause any great deal of alarm. With that I will agree, generally speaking, but the situation is there to a greater or lesser extent in most all war production industries. Certainly, after seeing industry do the stupendous conversion from peace to war production, overcoming the difficulties of that job, we can all agree that it can overcome any difficulties that stand in the way of getting back to peacetime production. However, we can make the job a lot easier if we start doing something now about correcting the situation.

I would like to offer a few suggestions. First of all, I think we should examine the present status of our labor cost control. We should appraise the attitudes of our organizations toward this problem, their interest in it, and the efforts they are making on it, and if we find that there has been a trend in the wrong direction, then we should endeavor to put on the brakes and get the machine headed back in the opposite direction. Until recently we have all had excellent excuses for our failure to give this problem the attention it received in peacetime production. We have had a big job to do and do fast. Our efforts have been concentrated on increasing production and getting to that level of production which our government has asked. It was impossible to continue to expand production and at the same time refine methods, processes, etc. But we now find ourselves, at least many of us, either at or nearing the peak of production. Schedules are levelling off and in many items being cut back. We should therefore be able to find some time to do this refining job. If we find that our executives and foremen are not giving the matter the attention they once did, it will be necessary to rekindle their interest in the problem. If we find that many of the members of our organization as it now exists have not had sufficient training in the technique of cost control, it will be necessary for us to revive old or develop new programs for bringing this training to these men.

What I have been trying to say may be summed up briefly, as follows:

1. American industry has been faced with the tremendous task of converting from peacetime to war production in enormous volumes.
2. It has done that job and done it well.
3. During that process of conversion a certain amount of our control of labor costs has been lost as a result of a weakening of discipline and a lowering of efficiency.
4. We want to go back to our peacetime jobs in just as strong a position as when we left them.
5. Generally, we have arrived at peak production and should now be in a position to tackle the job of recovering whatever losses we may have sustained and of getting our house in order.

CHAIRMAN FISKE: Thank you, Mr. Monroe, for a very excellent and interesting discussion. I am particularly impressed with your emphasis upon the attritional effect of continuing, for any considerable period of time, to accept even a reasonable excuse for increased costs. It doesn't take very long, under such conditions, for high costs, which may be understandable, and excusable on the ground that we need the production at the moment more than we need low costs, to become accepted as normal. Once you find yourself in that unhappy position, it is a very long and hard road to get back to the right perspective.

The big problem to date in connection with the war has been, of course, to develop plants and their organizations to turn out the war material which is essential if we are to attain the complete military victory which we all want. That is the most important problem of the moment, and it has, very properly, attracted the major portion of the attention of American business men so far. Regardless of its immediate importance, however, we should keep in mind that industry has another job, another responsibility. Should we be unfortunate enough to win a military victory and then bring the boys back to economic confusion and an economic depression, under which there would be no jobs to enable them to maintain the high standard of living which is the heritage of the American citizen, it would be a very sad condition indeed. American industry has a responsibility in that direction—an extremely important responsibility. In the process of turning out the war goods, it must make sure that it doesn't so disorganize itself or so affect itself financially that it is unable to maintain solvency, unable to maintain the financial position which will make possible reconversion to peacetime activities.

We know that reconversion is not going to be easy. It was a tough job to convert from peacetime to wartime work, and everything which we have done in the one direction is going to have to be reversed when peace comes. There will not be, perhaps, the same degree of enthusiasm and the same feeling of urgency which assisted in the first part of the job. But if we forget about that need, it will be very easy so to run our businesses today that we will find ourselves sadly hampered in the problems ahead. Accountants have an important responsibility here. I like to think of accountants as being the guardians of the solvency of the concerns which employ them. It is their job to see that costs are covered. It is their job to see that the policies are followed which maintain the financial integrity and the financial strength of the company.

It is not too soon, indeed it is highly important, to give consideration even now to the problems of planning to meet the return to peace. Already considerable attention is being given to it on the public platform, and, fortunately, there is evidence that businessmen are at work in their own companies.

Our second paper today is concerned with some of the anticipated post-war accounting problems. It should help us to think about them and make plans either to meet or to avoid them.

Our next speaker is a certified public accountant, who has the added advantage of a legal training and of being a member of the bar. He is a member of the National Association of Cost Accountants. In addition, he is a past President of the American Accounting Association, a member of the American Institute of Accountants since 1919. He has served the latter organization in the past as chairman of its Committee on Publications and as a member of its Committees on Accounting Procedure and Terminology. Currently, he is serving it as Director of Research. He has, also, academic experience. Since 1924 he has been a member of the faculty of Columbia University School of Business, where he is associate professor of accounting. He practices law as a partner in the law firm of Greene and Greene, and he is a receiver of the New York, Westchester and Boston Railway Company.

This experience all adds up to a background which ought to be productive of some very interesting and worth-while material on "Anticipated Post-War Accounting Problems." It is a real pleasure to introduce to you, Mr. James L. Dohr.

ANTICIPATED POST-WAR ACCOUNTING PROBLEMS

By JAMES L. DOHR, *LL.B., C.P.A.*
Professor of Accounting, Columbia University; Partner, Greene & Greene (Counselors of Law), New York; Director of Research, American Institute of Accountants

In any discussion of post-war planning, one is likely to be met at the outset with the suggestion that planning should be deferred until the war is over, in order that our energies may be dedicated exclusively to the winning of the war. The unsoundness of this position is easily demonstrated. While the terms "war" and "post-war" are convenient designations for many purposes, the periods indicated are, in the last analysis, only stages in a continuous course of development; planning need be no more limited now than at any other time. While no one can predict when the war will end, experience indicates that the cessation of hostilities will come suddenly and unexpectedly. If post-war planning is deferred until that time we will be wholly unprepared. Many post-war plans are in fact being made. Unfortunately, much of this planning is vague and ill considered; much of it involves the formulation of broad objectives without consideration of the means by which the objectives are to be attained; and much of it is directed towards the achievement of Utopian international relations, and is predicated on the naive and provincial assumption that all nations crave, or at least should be glad to receive, the blessings of American civilization. All too little consideration is given to the distressing problems of our own backyard. If we fail to participate in this planning our views will not be heard, and the views of those who are no more than vociferous are likely to control. Most important of all, the achievement of our hopes and aspirations in the post-war world should be the greatest possible incentive to the winning of the war. I believe, therefore, that immediate planning for the post-war period is vital, and that we, as accountants, will fail to meet our responsibilities to the community if we do not take part. This would be extremely unfortunate, for, if my analysis of the post-war problems is sound, the views of accountants should be of outstanding importance.

In any planning for the post-war period some assumption must be made as to the kind of post-war world we can, or are likely to, have. Here, it is not difficult to be pessimistic. If one considers the wounds and the scars which will be left by the war, the serious maladjustments in economic relations, the problem of reconversion to peacetime activities, the necessity of providing adequate employment, and the crushing burden of government debt, the prospect is not a happy one. In addition to everything else, there remains from pre-war days a bit of unfinished business. Prior to the decade preceding the war, our basic philosophy was one of providing opportunity for men to help themselves, and whatever may have been the faults in the application of that philosophy, it made us the freest and wealthiest people in history. On the worst day of the last depression we were far better off than any other people in the world. As a result of that depression, however, we were urged to adopt a new philosophy, and we turned to the idea that a munificent government could bring "everything to everybody." In my judgment that philosophy had failed, up to the war's beginning, to demonstrate its efficacy; at the war's end a basic decision will have to be made as to whether we are to continue the genial trend towards hoboism in our economic life or whether we shall revert to the "sweat and save" philosophy which guided us in the past. In view of all these discouraging facts, devotees of Schopenhauer may perhaps be pardoned for expressing the view that life in the post-war world will have to be lived for a long time on a substantially lower standard of living.

I prefer an optimistic viewpoint. I venture to suggest that if we conduct ourselves properly we can have the type of post-war world we want, and that we may well continue, in the post-war world, not only to maintain, but to raise our standard of living. Expressed in terms of simplified economics, our standard of living depends basically upon the quantity of goods which we produce and distribute. There is substantial reason to believe that we can, after the war, produce and distribute more goods and services than we have ever produced and distributed before. Manifestly, there will be, at that time, an unprecedented demand. The instinctive desires of the American people for various goods and services will be augmented by the pent-up demands engendered by war shortages. Improvements in manufacturing processes resulting from the war will make possible the production of new and better goods and services at lower costs. The rapid and unusual acceleration of obsolescence during the war, due to technical developments, will cause a large replacement demand.

To produce for these demands we will have abundant natural resources, adequate plant and equipment, an intelligent population, and, what is so conspicuously lacking in those who criticize business most, the administrative capacity or "know how" with which the various factors of production and distribution may be made to function efficiently. With this combination there should be no question as to our ability to produce and distribute the volume of goods and services which will make possible a higher standard of living.

If it is possible so to produce and distribute, the critical questions relate to the manner in which the desired volume of production and distribution may be brought about. How can business be converted rapidly to a peacetime basis? By what means are the wheels of industry to be made to turn? How can business activity be established and continued at the necessary level? How can we, within a reasonable time, give peacetime employment to our labor force of some fifty-million employables? In many respects this is the most important question of all, for I doubt whether we can stand another prolonged period of extensive unemployment.

The only satisfactory answer I can find for these questions lies in the system of private business enterprise, and I believe that, given a fair chance, that system can attain the desired results. The basic requirements of such a chance are easily stated. To begin with, the private business enterprise, large or small, must be permitted, so far as reasonably possible, to establish and maintain adequate reserves to meet post-war requirements. I am fearful in this connection that the present combination of excess profits taxation and renegotiation refunds may make it impossible to establish the necessary reserves. As soon as the war is over, government contracts must be speedily and reasonably settled so that business enterprises may be reimbursed for their war costs, including the costs of reconversion to peacetime business. If I understand the accounting procedure currently applied, no allowance is permitted for reconversion costs. Beyond this we should support a philosophy of incentives under which men will be rewarded in proportion to their work and the risks involved, so that existing business enterprises may enlarge the scope of their activities, and so that new business ventures may be started. Speaking generally, the private business enterprise should be permitted and encouraged to maintain a position of financial independence; its regulation should be limited to reasonable governmental supervision; it should be subjected to a sane tax program; it should be encouraged to enter new fields. In all of this, there is, of course, no thought that the business enterprise should not adequately realize and meet its social responsibilities.

To achieve the desired objectives, administrators of business will manifestly need accounting information as it was never needed before; it is our responsibility, as accountants, to see to it that the necessary information is available. The requirement is not, however, one which will arise for the first time in the post-war period. The information is needed now, so that, for instance, adequate reserves may be established to meet the exigencies of the post-war situation; it will be needed in the period of transition from war to peace, so that, for instance, government contracts may be terminated by prompt and equitable settlements. In addition, it seems likely that there will have to be a recomputation of substantial portions of the wartime accounting. In that process many difficult accounting problems will have to be solved.

Our program, then, should be one of developing accounting so that it will be of maximum usefulness in preparation for the post-war world, and so that it will be of maximum assistance, after the war, in establishing and maintaining the course of business at the desired level. It should be observed, of course, that, in so far as immediate problems are concerned, the program is already under way; what is needed is an extension of its ambit to include long-range planning. In considering the general lines along which this development should occur, I shall therefore omit any direct consideration of wartime accounting or of the problems involved in conversion to peacetime activities; I shall confine myself to matters of post-war peacetime business.

In this connection it may be well to consider at the outset a somewhat broader use than has heretofore been made of accounting data. In times past, accounting has served the private business enterprise. It has also served various types of non-profit-making institutions, including governmental agencies. It has played its part in the governmental regulation of business. With the increase in governmental control over the activities of the community and the evolution of various theories for the direction of social efforts, increasing attention has been paid to economic phenomena, the significance of which is determined from accounting information. As an illustration of what I mean, I refer to some of the monographs of the Temporary National Economic Committee, in which various accounting data are made a basis for conclusions in such matters as national income, corporate profits, invested capital, savings, etc.[1]

The difficulty in this process is the unsatisfactory and fragmentary character of the available information; the conclusions drawn are in many cases not warranted because of meagre evidence. In Monograph 12, for

[1] *The Use of Accounting Data by Economists; Accounting, Auditing and Taxes—1941*, American Institute of Accountants.

instance, the Treasury Department's statistics of income are cited as indicating an increase in corporate "net worth," over a 29-year period, of $94 billion. The statistics also indicate corporate profits, during the same period, of $102 billion, dividends of $93 billion, and retained profits of $9 billion. After making allowances for known additional stock issues (net) of some $28 billion, there remains an unexplained increase in "net worth" of $66 billion. The author of that monograph concludes at one place that corporate profits must have been understated to this extent; at another place he cites the discrepancy as evidence of "write-ups." For myself, I can only say that I envy the statistician his temperament which permits him to treat so blithely a matter of $66 billion.

If governmental policies are to be formulated as to these or similar matters, it is essential that there be an adequate summarization of the accounting data. The most comprehensive assembly of the data at the present time is that of the Bureau of Internal Revenue, in its *Statistics of Income*, but anyone who has worked with this data is familiar with its shortcomings. The task is one of tremendous proportions, and I suggest that it be studied by accounting organizations so that a comprehensive and effective plan of fact-gathering, summarization and publication may be developed.

Further suggestions as to the development of accounting may be made along two general lines. There are matters as to which we have been concerned, to a certain extent at least, in times past, and as to which we have only to continue and enlarge our present efforts. In addition, there are matters which may be dealt with as the probable requirements of the post-war period.

In the former category I would put, first of all, the necessity of furthering the understanding of accounting. I think we must admit that accounting is not nearly as well understood generally as it should be, and that this condition is, in a measure at least, our own fault. I have dealt with this situation elsewhere[2] and I am satisfied that the matter is largely one of terminology. Accounting is peculiar in that its ultimate effectiveness depends, in many situations, upon the translation of accounting information into action by those who are not accountants; accounting terminology is therefore of vital importance. An incredible amount of harm has been done by the use of the term "net worth" in the balance sheet. As a result of its implications the layman has been completely misled. One of the

[2] "On the Understanding of Accounting," *Journal of Accountancy*, LXXI, 3 (March, 1941).

largest American corporations sought, in its 1942 report, to clarify the situation by adding to the term "net worth" a parenthetic designation of "book value." This merely compounds the confusion. I am glad to observe, however, that the usage has largely disappeared from the accountants' reports.

There are many additional matters of understanding which need attention. The widespread use of the term "earnings per share" has endowed income with a false appearance of certainty and finality, and has obscured the differences in the character of income and many other aspects of income determination. The conventional classification of corporate capital as between capital stock, capital surplus and surplus is hopelessly befuddling, and the Interstate Commerce Commission's substitution of the term "unearned surplus" for "capital surplus" merely thickens the fog. The description of inventory valuation as "cost" when we mean partial or production cost does not make for clarity. Many other illustrations could be given to indicate the necessity of further research, study, and education if a reasonable understanding is to be achieved.

Somewhat along the same line, we should continue our efforts to dispel the "illusion of certainty" under which so many readers of financial statements labor. People must be made to understand that financial statements are not matters of mathematical accuracy which may be designated simply as correct or otherwise; they must be made to comprehend that estimates and approximations are made as to many important items, and that all anyone can do is to say that the statement of these items is within the area of reasonableness; they must learn that many elements of financial position are not measurable.

We should continue our efforts to reduce what I call the "tolerances" in accounting; it is distinctly disconcerting to find that widely different results may be achieved on a given statement of facts, all of which are proper, or which may be justified under generally accepted accounting practices. In dealing with this problem a distinction must be made at the outset between matters of principle and matters of policy; it is apparent, I think, that the two are easily confused. The amortization of good will as a matter of policy is very different from its amortization as a matter of accounting principle. A further distinction must be made as between the statement of principles and the application of principles to given statements of fact. As to the former, it is becoming increasingly clear that formulation is an extremely difficult matter; that there are no principles of universal application; that there is such a thing as conflict of principles.

Application of principles to facts is of even greater difficulty and is frequently no more than an intelligent guess based on inadequate data. In addition, principles must be formulated and applied in the light of an ever-changing world. Finally, in the statement of accounting principles, I think it is important that the matter be left largely in the hands of the accounting profession, including public accountants, private accountants, and accounting teachers. Special rules may well be required for special purposes, but control over generally accepted accounting principles and practices belongs with the accounting profession.

Something further must be done about the serious confusion in the balance sheet between "cost" and "value." In recent years we have moved substantially in the direction of the cost basis and we have definitely centered our interest in accounting as a process of cost amortization. There are many cases, however, of appreciation or decline in value as to which we have yet to determine the extent to which present value may be recognized. Value might be largely ignored if we lived in a stable and seasoned economy with a stable monetary unit. Unfortunately for accounting, we live in a growing economy in which we are plagued from time to time by substantial changes in price level. As a result of economic developments and variations in the purchasing power of the monetary unit, cost frequently loses much of its significance. To illustrate, the recent decision of the Securities and Exchange Commission in the Associated Gas and Electric Company case, relative to write-down where there is a permanent decline in earning power, raises an important issue. On the appreciation side the recent decision of the New York Courts in Randall *v.* Bailey makes it necessary for directors to consider present value in establishing dividend policy. We may well start with a general presumption in favor of the cost basis, but, whenever the significance of cost is of lesser consequence, value must be considered. As a practical matter it may be that more extensive use of the accounting reorganization will be necessary to bring accounts into accord with the more significant facts.

There is much to be done in connection with the income statement. To begin with, I think we should give greater recognition to the variety of purposes for which income figures are used. Originally, the income statement was prepared primarily for owner-management; today, the Government, the investor, the labor leader, the reformer, the politician, and others are interested in profits. If profits are to stand up under these impacts they must obviously be of a stouter quality. This seems to indicate that a higher degree of conservatism is required in the statement of profits, and that increasing recognition must be given to the fact that profits vary greatly in character and that there are business losses as well as business profits. A great deal has been said, much of it none too complimentary, about the "profit motive" in industry; perhaps it would be advisable to give consideration also to the "avoidance-of-loss motive."[3] Businessmen have recently come to a realization of the necessity of interpretation and clarification of the income statement; efforts are being made to explain the income situation to stockholders; the recent pamphlet of the National Association of Manufacturers is an interesting attempt to prevent misinterpretation of the income statement.[4]

An important suggestion has been made as to the structure of the income statement. The conventional sectionalizing and the showing of gross profits, operating profits, profits before taxes, etc., has led to the belief that there are various kinds of profits, whereas, in point of fact, the only item in the income statement which may be accurately designated as income or profits is the final item of "net" profit or "net" income. In discussing this item, Mr. George O. May epitomizes the matter when he says "the netter the better."[5] For years the corporate income tax has been levied under the general theory that the word "income" is the equivalent of "gross income"; as a result the tax has, to a substantial extent, been a tax on capital, or at least a tax on income in which a higher rate masquerades for the stipulated percentage. We have witnessed many criticisms of alleged excessive war profits in which the critic was dealing with "gross profits" or "profits before taxes" as indicating excessive profits under government contracts.

The suggestion is that the income statement be prepared in simple form without sectionalizing. The revenues are set forth first; the various charges are then listed and shown as a single total; this total is deducted from the revenues to indicate income. Several large corporations have adopted the form, and it will be interesting to see whether it has a general appeal.

I find, in my work at the Institute, that much of our difficulty with the income statement is due to two conflicting views as to its function. To some people it is a historical report of facts—an account of stewardship—designed to show *earnings*. To others it is an analysis of the implications of those facts—a prospectus—designed to show *earning*

[3] Lyon, *Risk, Profit and Loss* (1943), page 73.

[4] *How to Prevent Misinterpretation of Your Profits*, The National Association of Manufacturers, 1942.

[5] *Journal of Accountancy*, LXXV, 1, page 7.

power. Each concept has its place, but the attempt to combine both objectives in a single statement can only lead to unfortunate consequences.

Turning to the additional accounting questions which are likely to arise in the post-war period, one can only speculate as to the nature of such problems. Much depends upon the length and course of the war and what we attempt to achieve thereafter.

The primary question in the post-war period will be that of governmental regulation. I have already indicated that I do not relish the thought of a life attuned to the directives of bureaucracy. Some regulation is, however, necessary, and since accounting is an important tool of regulation we should lend sympathetic support in the solution of the many problems of regulatory accounting. With all our experience along this line, I think there is still much to be learned, and that we should be ready to assist in the development of sound methods of accounting control.

It seems clear that the question of labor relations will be of paramount importance in the post-war world, for, manifestly, adequate progress is not possible with the present intolerable situation, a situation too much like that of Mr. Chamberlain at Munich. Everyone favors high wages, but labor should be taught to understand that it competes, not only with machines, but within its own ranks, and that the employer's ability to pay high wages depends upon his ability to sell the services which he acquires as a result of the employment contract. In addition, the division of revenues between what we call capital and labor is, in fact, a division between present labor and labor of the past. Accountants can help materially in bringing about better labor relations by providing the data necessary for the development of sound labor policies, amiable labor relations, and satisfactory wage plans.

It seems likely that a good deal of interest will center in the problems of distribution because of the fact that distribution cost is such a substantial element in the price to the ultimate consumer. We have done extremely well in the field of production; in the matter of distribution a great deal of improvement is possible. This problem seems to call for an extension of cost accounting techniques in the field of distribution accounting.

Since margins are likely to be narrower, further consideration will have to be given to the problems of cost determination, and particularly to the question of volume or output in its relation to cost. To begin with, I doubt whether the conventional classification of cost as between production, distribution, general administration, and finance is as useful as we have felt it to be in times past. Cost means total or over-all cost, whereas the classification has led people to confuse various "partial" costs with aggregate costs. It may well be, for instance, that a portion of administrative cost, so-called, should be included in production cost. In addition, there is too much variation in result depending upon the method of distributing indirect charges; widely different costs are computed on substantially the same facts solely because of the difference in method. As to the volume factor, in many situations the "differential" cost is much more important than the "unit cost" as ordinarily computed. Additional studies will have to be made as to the significance of differentials along with the related questions of idle production and idle distribution facilities.

The question of consumer purchasing power is likely to be acute, at least for a time. As a result the financing of sales will, in many cases, be difficult; greater attention will have to be paid to the accounting for installment sales and for the financial costs involved in other methods of credit selling.

Much remains to be done in the development of a sane tax program. As presently constituted, the Internal Revenue Code is a horrendous monstrosity, in which Congress has attempted to legislate, in the most obscure language, on every detail of income determination. The result is a symphony of obfuscation. Even the "relief" provisions are likely to drive the taxpayer mad long before he can enjoy their benefits. Obviously, accountants are in a position to make recommendations for sound policies in taxation, and we must not be discouraged by the failure of Congress in times past to follow our recommendations.

In all of the above there will obviously be an increased need for organized accounting research. Facing the necessity of formulating accounting principles, the practicing accountants are obviously handicapped by lack of time; accounting teachers do not always have the necessary factual data or the immediate knowledge of the problems of application. It is essential, therefore, that research agencies be established, with adequate facilities, so that research may progress intelligently and with the active cooperation of all classes of accountants.

In the field of public accounting, I begin to sense a problem of some magnitude. In times past the public accountant has taken pride in his independence, and one of the healthy developments in recent years has been the increase of that independence. At the same time, the public accountant has endeavored to make himself more useful by an extension of his activities to include various services for his client. The suggestion is now made that a close association with the affairs of his client, particularly in matters other than auditing, may result in a lack of independence. There may, of course, be cases in which this thought has merit, but I sincerely doubt the necessity of a general prescription of celibacy for the public accountant. After all, this idea would, in the last analysis, preclude acceptance by the public accountant of a fee, and when that point is reached the discussion is ended. Independence is vital, but some reliance must be placed on the integrity of the accountant.

In the foregoing discussion you will doubtless have noted a conspicuous omission in that I have said nothing as to foreign trade. The omission is intentional, because I find the whole matter a very baffling one which I should like to dismiss, for present purposes, with a statement of the obvious, that we will undoubtedly find many new accounting problems in this field.

As I see it, the post-war period offers a splendid opportunity for accountants—an opportunity to advance their own self-interest, an opportunity to assume a position of far greater influence in the economy, and above all an opportunity to serve the community. To these opportunities we may well dedicate ourselves with high hopes and expectations. If we plan now with courageous vision and support the development of accounting with diligence and devotion to our ideals of service, there is no question but that we can contribute materially to the post-war happiness and well-being of the American people.

DISCUSSION

Chairman Fiske: We are indebted to Mr. Dohr for a very constructive and, what to me is particularly pleasing, an aggressive rather than a defeatist type of talk. There has been altogether too much of defeatism.

We have a few minutes for questions and discussion. Mr. Dohr and Mr. Monroe will be glad, I am sure, to have your questions.

Question: Both Mr. Monroe and Mr. Dohr touched on, at least by inference, the question of wage incentives. Have you any idea as to how accountants might be able to instill in labor or government the idea of wage incentives for the purpose of getting high production or getting better production?

Chairman Fiske: The question as I get it is concerned with methods of educating labor to the era of incentives. Inasmuch as Mr. Monroe's responsibilities include not only accounting but industrial relations, he ought to be able to answer the question.

Mr. Monroe: It has been the experience of industry that the elimination of wage incentive plans has reduced production and increased costs. Due to the manpower shortage today it is becoming increasingly difficult to obtain efficiency or anything faintly resembling it by "disciplinary methods." As a consequence of the resultant low efficiency the manpower situation is intensified and the cost of war production is higher than it ought to be. The establishment of wage incentive plans properly administered will increase production and reduce costs. This will relieve the manpower situation and reduce the cost of war products to the government and to the people of the United States. It should not be too difficult to interest the government and public opinion and secure support in realizing these two objectives. In the final analysis both the government and labor are subject to public opinion.

At the Inland Manufacturing Division of General Motors we have wage incentive plans and have always had them. At the present time there is considerable agitation on the part of the War Production Board and the Procurement Agencies of the Armed Forces for incentive plans. The reason advanced is that they will increase war production. Incentive plans, based on increased production above present rates of production, in most instances will result not only in increased production but also in increasing wages far beyond their present high levels. They will not reduce costs. I think it is important that production be increased to what it ought to be without raising the present high level of wages, and at the same time to reduce the cost of war material. This reduction in cost is vital to all of the people, who, in the final analysis, pay their share of these costs.

CHAIRMAN FISKE: I am sure that there must be individuals in the audience who can contribute to some of these questions. Some of you, no doubt, have had experience with the problems that have been raised. Is there anybody here who would care to contribute his experience? It seems to me the problem of educating labor and the public is an extremely important problem, and one to which we must give our attention. Not nearly enough attention has as yet been given to it.

QUESTION: I would like to know what the reaction of the War Labor Board is regarding incentive plans and increasing incentive plans.

MR. MONROE: The War Labor Board has taken the position that the introduction of incentive plans for the purpose of increasing wages, which would increase the cost of war production, will not be allowed. This same position has been adopted by the War Production Board. I believe the War Labor Board, the War Production Board, and the Procurement Branches of all the services would favor installation of sound incentive plans based on time studies, established by fair and accurate time and motion study of the operations being performed, on the basis of fairness and equity consistent with quality of production and the reasonable capacity of normal operations. In those plants, with which I am familiar, that have maintained incentive plans established and operated on that basis, they are, in my opinion, just as efficient today as they ever were. However, it will be very difficult in those plants that have never been on an incentive basis, or were on an incentive basis at one time but are now on a straight hourly rate basis, to re-establish incentive plans comparable to those plants which have never lost them. The main point to be remembered is that the present high wage level in many instances was established under an incentive plan. Where incentive plans were dropped in favor of a straight hourly rate, the earned rate under the incentive plan became the straight hourly rate. The attitude of many of the Labor Unions toward the re-establishment of incentives is that they are willing to consider incentives on about the following basis:

1. The present high rates of pay will be guaranteed.

2. The setting of standards shall be done by agreement between the Management and the Union.
3. The Union will have its own time-study force to check the studies made by the Management, and approval of the Union will be required before the standards are set.
4. Changes in standards can be made only by agreement between the Company and the Union, etc.

These provisions would tend to establish standards at the present rate of production of employes, whether efficient or not. They would always tend to endless argument regarding the accuracy of the studies before they were made effective, and in the end, would result, as I have stated before, in greatly increasing the present high wage level.

QUESTION: Mr. Dohr, do you think there is any possibility that post-war reconversion cost will be accepted as a current cost?

CHAIRMAN FISKE: Mr. Dohr, do you want to take that? The question refers to the Treasury acceptance of a provision for post-war adjustments in costs.

MR. DOHR: I don't quite see the point of the connection. In what connection do you want post-war planning costs accepted?

QUESTION: On the same theory that the conversion costs from a peacetime program to a wartime program was allowed as cost, which presupposes that there will be expenses incurred by management to convert back. Isn't that a cost of the war effort which should be allowed as a cost to the producing company?

MR. DOHR: Yes. Well, I think I mentioned that point. In my opinion, the conversion from a wartime basis to a peacetime basis is a war cost. I take it your question is, Will the government in the settlement of war contracts make an allowance for these costs of reconversion? All I know is that the general policy up to the moment seems to be not to allow those reconversion costs in renegotiation proceedings. I certainly hope that by the time they get to the settlement of contract terminations, and that sort of thing, they will allow the reconversion cost. The principal objection now, as I understand it, is that the amount is altogether too vague and cannot be reasonably estimated. This would seem to indicate that, if the time came when the amount could be established with a fair degree of accuracy, it would be allowed, but of course I can't give you any assurance as to what the present government will do!

MR. MONROE: Isn't it true that all war contracts have been written that the cost of reconversion to peacetime production shall be borne by the contractor?

MR. DOHR: That is my understanding.

COMMENT FROM FLOOR: I would like to remind Mr. Dohr of the recent Truman Committee report, which I believe is the first encouraging sign in Washington of some possible recognition of post-war reconversion costs. The report was quite in the affirmative, since which time the Senate Finance Committee and the House Ways and Means Committee have had some conferences on the question. I think that I can promise, with reasonable assurance, that the Committee on Federal Taxation of the Institute is going to strongly champion the allowance of post-war reconversion costs for tax purposes, and that, if that be done as a matter of policy, the Price Adjustment Board likewise would have to give it some recognition, but perhaps, to assure it later, it will also require some legislative action.

CHAIRMAN FISKE: Thank you. Does anybody else care to comment on this question?

QUESTION: Mr. Dohr stated that business must be permitted to establish and maintain sufficient reserve for rehabilitation and conversion back to the peacetime pursuits. He also stated that we had tremendously increased our productive capacity, which is true. There would be enough demand now for products, with no ability to buy. What is going to be the prospect along that line, with the high taxes and the spending people are doing today, high spending and little savings?

MR. DOHR: I take it your question comes down to this proposition—assuming we are in position to produce on a basis such as to raise our standard of living, where is the purchasing power to come from?

QUESTION: That is right.

MR. DOHR: Of course, that is a vexatious question to say the least, and I can think of a great many other questions which will arise that I didn't touch upon. In my paper I pleaded guilty to the charge of over-simplification. It seems to me, however, that purchasing power is going to increase if we can provide adequate employment. I think you have a chain of events. If the business enterprise comes through the war with a reserve adequate to take care of its needs in the post-war period and to permit it to go forward with peacetime business, it can give adequate employment. As business gives employment you build up purchasing power. There is a spiral which we have got to start going in the opposite direction from which it went in the depression. In the thirties' it was going downward; after the war we have got to start that spiral upward.

I wouldn't be surprised if we needed a measure of governmental help in the transition period. I don't see how industry could, immediately after the war, give employment to the 50,000,000 people who are now employable. However, I think that, after a comparatively short time, private business enterprise, with the proper psychological attitude, will be willing to take risks, develop new fields, and hire men. That would give us the purchasing power.

MR. MONROE: Don't you think it would be possible, Mr. Dohr, to acquire capital by borrowing, after the war, with a fairly low rate of interest for expansion and conversion?

MR. DOHR: I think it will be possible to borrow if we have the credit position to do so. If we come out of the war with depleted assets, we are not going to be good credit risks. In that case, nobody but the government will lend us money.

MR. MONROE: The reason I asked that question is that I happened to be in Cleveland a while back on a Labor Board case, and one of the industry members of the Board was complaining about the tax situation. He is a business man. He said he would like to spend $300,000 on rebuilding his business after the war. He couldn't do it if the government takes all the profits away from him either in taxes or by renegotiation. I asked him how he planned to get that money if there hadn't been any war. He said he hadn't figured that out, either.

CHAIRMAN FISKE: I think one of the really serious dangers is that those to whom people will lend won't need it, and those who will need it will be unable to find anyone who will lend to them. Is there another question?

QUESTION: I have a question that is rather academic, but I think it is pertinent inasmuch as it deals with the post-war situation. It has been pointed out that we have fallen into ways of laxity. Our labor costs are up and our general standards of control are down, which means that when we start to go back to our peacetime products our costs are going to be very much higher, I believe, than our old selling prices were. I wonder if you gentlemen on the platform would care to comment as to what the possibilities are of our establishing sales prices on the basis of our post-war costs rather than on the sales prices as they existed before the war.

MR. MONROE: Our post-war costs will depend greatly on the extent to which our labor costs increase during the war as a result of the combination of increased wage rates and lower production efficiency. I believe it is generally predicted that they will be much higher than before the war. Whether or not the OPA—if we have an OPA after the war—and I am afraid we will—would permit the establishment of sales prices on the basis of inflated post-war costs is a matter of conjecture. Many of you have had experience with the OPA and your guess is as good as mine, but I would venture that they would oppose it.

QUESTION: To what extent do you feel wartime labor standards may be used in the post-war period? Incidentally, one of the things that is troubling me is the possibility of a great many strikes taking place after the war. They are on their good behavior now, but there is a possibility of even higher wages coming after the war.

MR. MONROE: I don't think I got the first part of that question.

QUESTION: The question was, "Do you feel that present wartime labor standards can be used as a guide to help production planning in the post-war period?"

MR. MONROE: It is my opinion that the attitude of labor organizations after the war with regard to wages will be what it has always been, and that each year there will be demands for higher rates. If the War Labor Board or another agency with similar power is maintained after the war and is in a position to issue directives to employers to pay more money, it is my guess that each time the question comes up there will be more money in it for the workers in some form or another, just as I feel perfectly sure that the coal miners eventually will get some form of increase as a result of the present controversy. If such a government agency is not maintained after the war, and employers are in a position to reject demands for higher wages, there will, in all probability, be plenty of strikes.

CHAIRMAN FISKE: If there are no further questions, I would like to thank both of the speakers for their contributions today.

SECOND SESSION

FRIDAY, MAY 21, 1943—7:00 P. M.
Deshler-Wallick Hotel (Dinner)

Chairman:

RUSSELL S. WILLCOX, *Department of Accounting, The Ohio State University*

Address: "Looking Ahead"

RANDOLPH EIDE, *President, The Ohio Bell Telephone Company, Cleveland*

INTRODUCTORY REMARKS

By Russell Willcox
Professor of Accounting, The Ohio State University

In this Sixth Annual Institute of Accountants we are about to set two precedents. In the first place, this is the first time that any member of the accounting department of the University, who was on active duty at the University, has ever stood on his feet and said one word, and I do it now only because of the illness of Dean Weidler. Dean Weidler has presided at these sessions for six years. I think it is one of the things he enjoys, one of the things to which he looks forward, and I know he regrets very much that he is unable to be here this evening, and he asked me to express his regrets. He hopes that you will still have a good time and that he can join you next year.

The second precedent we are about to set is the fact that this is the first time we have ever had a meeting off the campus. I don't know whether it is good or bad, but I remember that last year along about 7:00 o'clock, when we were ready to start our meeting at the Faculty Club, the skies just opened up, the rain came down, and half of you got there and half of you didn't, so we thought that this year the logical plan would be to follow you down town and maybe you would get to the meeting. Looking around, I gather that most of you did get here.

When we started to plan this program a few weeks ago we thought that the attendance might be 100 or 125. Naturally, we are very pleased to see the large number of people who have turned out to help us continue this series of Accounting Institutes which we started six years ago.

In behalf of the Department of Accounting, I would like to express our appreciation to all of the people in Ohio and elsewhere, our friends who have supported our Institutes over a period of years, people who have been with us constantly, and to the speakers who have given up their time to be with us.

Of course, one of the reasons why those of us in the Accounting Department have enjoyed participating in these Institutes is because we have had the wholehearted support of the University administration. You men know that in your own organizations, if you get the chief administrative officers behind you, the job is a lot easier. The Accounting Department of the University has been unusually fortunate in that we have always had our chief administrative officers behind us.

There are a number of people at the speakers' table, and I often wonder why it is necessary to place so many at the speakers' table. I suppose someone has to sit up here to keep the principal speaker and the chairman company, so we have quite a gathering up here, as usual. Not all of them are going to make a speech, but I am going to at least introduce all of them and maybe let a couple of them say a word or two, if they would like.

First of all, I would like to introduce the representative of our University administration, Vice-President Harvey Davis. Would you say something, Mr. Davis?

DR. HARVEY DAVIS: I don't know just how long my remarks are to be, but I assure you that they will be very short. The Chairman has made a good speech of welcome already. About all I need to do from that standpoint is endorse it.

Obviously, it has been known by all that three major jobs any university has to do is to carry on teaching, carry on research, and carry on public service. This Institute is essentially in the realm of public service, and we enjoy greatly the groups, the many kinds of groups, which come to us, and we hope we are able to help them somewhat. Certainly we give you an opportunity to help each other. The accounting group is a particularly welcome group. You are a good bunch of folks to have around, and in these days an essential group.

I remember a statistical book I studied once upon a time that started out by saying that whatever ties exist at all exist in some amount, and anything that exists in any amount can be measured, and so they went on from there. I think it is also true in this modern world that any enterprise we carry on costs some money. If it costs some money, that amount can be determined, but, once having determined that, we have a measure of relative importance of different enterprises.

A world as complicated as this certainly requires the overtime efforts of you men who are able to measure, in so far as the financial end of it constitutes a measure, and it is a pretty big one in all enterprises, for us the different extents and, to a considerable degree, the importance of these measures, and we appreciate having you here, having you working together and giving us the benefit of your deliberations, and if we are able to help you any we are very happy about it.

CHAIRMAN WILLCOX: Mr. Davis, I can truthfully say to you that every year the members of the Accounting Department of the University have benefited materially by association with this group.

We have some other members of our university family here that I would like to present. (The Chairman then introduced:)

MR. CARL E. STEEB, Business Manager and Secretary of the Board of Trustees.

MR. H. K. SCHELLENGER, Director of the Bureau of Public Relations.

MAJOR JACOB B. TAYLOR, Chairman of the Department of Accounting (on military leave).

You know we have always tried to gather together at these Institutes the presidents of the national accounting organizations, and we have been fortunate over the years in having most of them with us. They have participated in our programs, and have helped us in various ways. We are always glad to have them. We are always glad to welcome them.

(The Chairman then introduced the following:)

WYMAN P. FISKE, Professor of Accounting, Massachusetts Institute of Technology, Cambridge, Mass.; President of the National Association of Cost Accountants.

GEORGE S. OLIVE, Certified Public Accountant, Indianapolis, Ind.; President of the American Institute of Accountants.

A. L. PRICHETT, Professor of Accounting, University of Indiana, Bloomington, Ind.; Vice-President of the American Accounting Association.

J. A. HAWK, Certified Public Accountant, Dayton, Ohio; President of the Ohio Society of Certified Public Accountants.

VICTOR H. STEMPF, Certified Public Accountant, New York; Past President of the National Association of Cost Accountants.

You can't mention the National Association of Cost Accountants without thinking about its secretary. Every year, we have been honored by his presence. I suppose his title is business manager, secretary, or something of that sort. I don't know. It doesn't make much difference to me what his title is. I have reference to Dr. Stuart C. McLeod, whom many of you know as "Doc." Would you like to say something, Mr. McLeod?

DR. S. C. MCLEOD: As the oldest living graduate of The Ohio State Annual Accounting Conference, I came here for the purpose of relaxing and not to make a speech, but my reputation has been built on never passing up an opportunity to talk if anyone will listen.

I should like to say one thing to the Department of Accounting and to the administrative officers of The Ohio State University, whom I am happy to number among my friends through my association with them. It has always been a great pleasure to come here once a year, and I don't want you to think I come here through any sense of obligation or any sense of duty. I come for only one reason. I come because I like to come. I like to associate with you fellows in these annual conferences, which I, personally, believe are making a very real and substantial contribution to the development of industrial accounting in this country.

I should like to congratulate you and the administrative officers on your courage in holding this Conference. I remember last year when we were here you talked with me very frankly about the possibility of holding a Conference this year, because conditions are not as they have been in prior years. You decided to hold this Conference, and I am glad you did. I think it showed courage and vision, and I think it should have been held. We debated the same question in our National Board, as to whether or not we should hold an annual conference this year. We came to the same decision you did, and we are going to hold one, not with any intention of opposing the restrictions which have been placed upon travel by the federal authorities, and also by the railroads and hotels and porters, but simply because we believe that the good that we can get from these conferences justifies the effort which may be invested in them and also the burden which may be placed upon our transportation facilities.

We are going to hold our convention in Boston, the last week in June of this year. We think we have the finest technical program we have ever presented in our history. We hope all of you who possibly can will be there to join with us. Whether you can come to Boston or not, I congratulate you on your vision in coming here, and I hope that through these trying years you will continue to hold these conferences.

CHAIRMAN WILLCOX: Now we get down to the serious part of the program. I suppose I ought to tell you that our speaker is a graduate of the University of Illinois. He is a native of Illinois. After leaving the University of Illinois in 1910 he went to work for the Telephone Company in New York, and held several different assignments. In 1930 he was elected President of The Ohio Bell Telephone Company.

Gentlemen, I have the very great pleasure of presenting to you tonight, Mr. Randolph Eide, of The Ohio Bell Telephone Company of Cleveland, who is going to talk on the subject of "Looking Ahead." Mr. Eide.

LOOKING AHEAD

By RANDOLPH EIDE
President, The Ohio Bell Telephone Company,
Cleveland

I claim that I am an accountant, and I learned accounting the hard way. I was born and raised in a country store in Illinois. My father, the proprietor of that store, kept a beautiful set of books. He knew how much money he lost on butter, on eggs, on hides, and on tallow. He knew how much his freight bills were and how much his express was, and once a year his four boys and he, right after the first of the year, had a favorite pastime, and that was inventory. Each of us sealed in an envelope his guess as to what the inventory would total. The one who guessed most accurately got $25, but father saved the $25 if he were closer. He would take a look at his books and do a little calculating and look out into space and write something down and seal it in the envelope. None of us boys ever collected a dime from him on that deal.

Then again I qualify as an accountant, and you Ohio people will appreciate this: No man ever followed the famous Ohio Bell Telephone rate case without becoming qualified as an accountant, a thorough-going accountant.

I have the greatest respect for the accounting profession. During that case we came down here frequently to confer with the Commission, the Attorney General, and others—my general counsel is here and he will probably take me to task tomorrow for revealing this—we used to come down here, and in ten minutes the Public Utilities Commission and the Attorney General would ask us enough questions to keep the accounting department busy for a week, but they wanted all the figures by 10 o'clock the next morning, and our accounting boys delivered them.

Now I am here tonight somewhat under instructions. I am here because I am one of these weak business individuals who hasn't the ability to say "No." Your Chairman didn't start out to get me at all. He started lower down in the organization. I have one of the best buck-passing organizations you ever saw. They just passed the assignment on up until it got to me, and I accepted it. I am glad to be here, but I am somewhat concerned about the subject which has been assigned to me.

I have been double-crossed. George Eckelberry wrote me and said that he was pleased that I was coming. He also said that he would like to have me give a businessman's views on some of the problems that will be confronting us in the post-war period. I call your attention to the title that appears on the Program, which is, "Looking Ahead." That gives me a tremendous latitude, and I have about decided that I shall confine my remarks to prophecying what will take place 100 years from now! By then, no one here can possibly be alive to check up on me.

I am going to try to cover some of the problems and some of the items that are involved in the post-war period. I can only hit the high spots. I can't chart any courses. That is a job for much wiser men than I, and it is a job on which you can't generalize. Each individual business has to take whatever its problem is and try to fit it into what management thinks the future might be.

Then there is a fund of literature. There is more being produced every day on the post-war period. Some of it I think is valuable, and it will all help us in our thinking. However, I think some of it, as I analyze it, is just wishful thinking. It is a bit dreamy, and I suspect it has been authorized by the starry-eyed boys down in the District of Columbia. There seems to be a little inclination on the part of some of the literature to want to change a lot of things—What we have had these 150 years in this country doesn't seem to be satisfactory, and we ought to change it. So my effort here tonight, compared with all of that fund of literature, is going to be, I am sure, quite ordinary.

Of course, your greatest concern and my greatest concern today is that of winning the war. That is our Number One concern in production, Number One in manpower, and there can't be any let-up in any respect until peace is finally here. You hear today that there are indications that we are slowing up here, and we are going to slow up there. I don't think that is true. We may be putting the emphasis on another place because of the experience of battle, but we can't under any circumstances slow up until the job finally and totally is completed.

Now I think one is required to look back before he can look ahead. Every great economic disturbance that is caused by war brings us great surges and peaks. That was true in 1815. That was true in 1865, and that was true in 1920. Those things, of course, simply give you and me a hint as to what we can expect in the future.

Today, we are experiencing rises in prices. Living costs are going up. Wages are increasing, and each day sees some new circuit around the spiral. I don't know whether it is wages first, cost of living next, or what. It is a good deal like the old story of which came first, the chicken or the egg, but the pattern today is taking on the same general characteristics of previous great disturbances.

True, our government is inaugurating controls. It seems to be trying to do a good job. I, personally, am somewhat doubtful of its success. The controls may be slowing up the inflationary process; they may be preventing a run-away of that process, but I think I can see in the efforts some muddling, and even a suspicion of politics. So, the inflationary process that is going on about us today will, in my opinion, continue as long as the war lasts. It will continue after the war, and then you and I will be confronted with readjustment and the deflationary processes coming out of the situation, but at a level that will be probably permanently higher.

Some of the controls that are being inaugurated seem to me quite flexible and elastic. Perhaps that is wise. Yielding to the various pressures is, perhaps, the thing to do, but each time that we yield we find the inflationary process pegged up another notch. That seems to be going on today in connection with the bituminous-coal situation, and in our constantly and continuously changing wage-stabilization policy. So there can be only one result, as I see it, at the end of the war, and that will be higher prices, higher wages, higher cost of living, more regulation of business, more restriction of your personal affairs and your business affairs, and of mine.

These results are perhaps unavoidable. They perhaps are the price that democracy pays for war. They probably are not being and cannot be avoided in another form of government, and I, for one, think that, when peacetime comes, whatever is left to you and me is not impossible of solution.

I have heard the present controls of the processes characterized, first as promises, then as excuses, and finally, as justifications. My business and your business, when we have finished, will have the painful job of extricating itself.

Now let's take a look at the situation we were in during the period just before the war. Our economy received a terrific jolt in 1929, and we had experienced, up to the time of the war, several years of the most serious depression that our economy has ever encountered, but we had made great progress, tremendous progress from the bottom of 1932 and 1933, when the outlook for all seemed staggering and the prospects black. We had come out of the heavy load of unemployment until largely, not entirely, our people were at work. Our business definitely was recovering before it had the innoculation that came to it as a result of the approach of the war effort. Confidence was being restored, and I think some of the hostility on the part of the government to business was becoming less severe.

There seemed to be a falling off in the desire to punish businessmen. In fact, there seemed, on the part of some, a slight appreciation that perhaps business and businessmen fitted properly into the scheme of things. Our businesses generally had adjusted themselves, had adapted themselves to the many controls and regulations that were born during the depression, and business had found that it could get along quite well. Business found that it could get along with the various regulations that were imposed upon it.

In our own industry, the communications industry, we had been under regulation for a number of years. When regulation first came, most of us didn't like it, but regulations and controls, conducted by reasonable people, with reasonable administrative practices, were not intolerable, and, in fact, they proved some protection to our business. So long as the administrative bodies devised reasonable and sensible rules, we found that, under regulation, we could carry on quite successfully.

I think that, in looking forward, it is well to appraise some of the results that this thing we call American business has accomplished. Whether it has accomplished them under its own initiative or been driven to do it by other sources makes little difference, but this thing that we call American business has succeeded in producing the best and the cheapest products anywhere in the world.

And now I want to get in a little plug for the telephone business. It, also, has succeeded in producing the best and cheapest services existing any place, anywhere, in the world. That is true of other utilities.

American business has produced these results with wages and salaries that are better than anywhere else in the world. It has gotten results under progressive improvement and continuous betterment of the general working conditions of the people who have produced these things. By and large, American business has enlightened employment conditions. It has adopted high standards of safety. It had adopted protection and, in many cases, social security for its employes long before it became a matter of legislation. True, there are some exceptions, but, by and large, I think that these attainments have been the result of the policy of American business. We have produced under this system the highest standard of living of any place in the world. Our lower economic levels are enjoying many things that never have been made available in the same levels in other countries. There may be distortion between individuals. Some may have become very rich and others may have become very poor, but with the average middle class that this institution of business has made possible in this country, of which class I like to include myself as a member, there is nothing to compare anywhere else in the world.

There will always be differences between individuals. All of us were created equal, but you gentlemen connected with colleges know that there are differences in I.Q.s and in ambitions. You ladies and gentlemen are accountants, and you know what a simple average is. If you make a simple average of the lot of a group of average men in this country and then superimpose on it the lot of the average men of any other country, you will find that the best in most countries doesn't reach our average.

I have an uncle living in Norway. I hope he is still alive today. He is an educator, attended Oxford University. I visited him in 1936. Our depression, you will recall, was several years old at that time, and he was thoroughly appalled at the terrific waste and the ways and means that we were adopting to pull ourselves out of the depression. You know Norway is a rugged country. It is a thrifty country, and you work there, and you work hard or you starve. He said to me a thing which I shall always remember, and it was this: "Randolph, the trouble with you people in America is that you don't know how to handle a depression. You ought to come over here. We have been handling one for 400 years, and we are a pretty enlightened group of people."

Now, in looking forward, I think one must appraise what the American businessman has done in the present war effort. He has performed miracles, and I mean miracles! He has produced, after having been kicked around during the depression, beyond anything that was ever expected of him, or anything that he, himself, might have anticipated, and he has met the challenge and he has met it well. He has produced unfamiliar items, things with which he had no experience, at low costs. In fact, he has produced them at surprisingly low costs, and you men who are engaged in the renegotiation of some of the contracts are thoroughly familiar with the kind of a job that he has done. In many cases, this businessman has made reductions in prices voluntarily.

He has created manufacturing processes simultaneously with the erection of his plant, and before the design of the thing that he was going to make had been completed. I saw evidences of that right out here at your Curtiss-Wright Plant. They were turning out stuff at one end of the plant and at the same time were breaking ground at the other end.

Now what were the objectives, at least as we have been told, of the last war? We were told that we were fighting the war to make the world safe for democracy. We were told also that we didn't finish the job. We are told now that we are fighting to preserve the American system, preserve our way of life. I firmly and thoroughly believe that, and, judged by what has happened elsewhere, if we don't come out successfully, which we will, it means the loss of our American system.

Now I bring that out because, in this fight to preserve our American system, I think one of the foremost parts of that system is the preservation of this thing that we call American business. It is part and parcel of, and can't be separated from, America.

Now the businessman today has many problems ahead. You know them as well as I do, but perhaps it might be worth-while to pause here a few minutes and enumerate some of them. He has ahead the problem of changing his whole relationship to our economy from one of war to one of peace. He has ahead the problem of recapturing lost markets, abandoned markets. He has ahead the problem of readjusting his productive machinery, his plants, and his factories, and his business to producing the goods of peace as compared with the goods of war.

Looking at that from a telephone standpoint, we rather feel that readjustment is going to stimulate business immediately when peace comes. We have been carrying tremendous loads of long-distance service, but we rather look for the fact that the rush and the scramble to get on the market first with peacetime goods is going to sustain our telephone business. The same thing that affects the telephone business affects general business. True, there are going to be readjustments in the change-over, but I don't believe that there is going to be any complete stoppage. The businessman has the job of absorbing into civilian life our men and women who are in the armed forces. We can't and won't let them come back and walk the streets. We are obligated in all institutions to find a place for them, and I am sure that that is what our businessmen propose to do. I am sure that if we handle our affairs properly there will be places, good places, for these men and women when they return from the armed forces.

Only yesterday, and I say this with the greatest respect—it came up rather incidentally—in our own company we made a canvass of the number of physically handicapped people that we have working for us now. The number of men and women was rather startling to me. One of the reasons why we were looking into that was that we wanted to learn now how to give jobs to the physically handicapped, because, whether we want it or not, I am terribly fearful that many of our boys will return physically handicapped, and business must find a respectable place for them.

Then we will have the job of handling the return to the home and to the normal pursuits of life, the many women that we have taken into industry. Some of them will remain permanently attached to business. Business will learn also that many of those people can perform tasks better, and perhaps cheaper, than men, and that will give you and me, as businessmen, another problem. We will have also the problem, as we had in the last war, of handling results of the great migration from our small towns and our farms to our cities.

The businessman will have the job of adjustment to normal hours of work. Plants will have to be changed from working around the clock, 24 hours a day, to the normal hours of work, to a normal day's work and a normal week's work, and that involves the problem of less take-home pay. There probably will have to be adjustment in some cases of the pay scales themselves.

You hear every now and then an indication that, perhaps, when peace comes is the time to destroy the labor unions. I, for one, think we shall require more than ever before enlightened labor unions that can sit down with management and work out the readjustments of these problems of hours, working conditions and pay when peace finally comes.

There will be the necessity for relaxing and eliminating, if you please, many of the regulations and controls that have been placed on business and our personal affairs. Many of those regulations and controls will remain probably with us forever. We certainly do not require wartime controls in peacetime, but the politicians and the job holders will want to retain and saddle onto business many of those controls.

We will be confronted with the large job of disposing of inventories of war goods, inventories of goods in process, and inventories of raw material. Recently, I visited one of our large ordnance depots in a neighboring state, and, ladies and gentlemen, literally I saw miles of telephone and radio apparatus and equipment piled 15 to 18 feet high in the warehouses, and that is the way it should be. We must continue making all of these goods of war right up to the very peace, and then, of course, business and government will be confronted with the disposition of these huge inventories. If supplies are thrown into the market, of course, they will be in competition with the things that you and I will want to make, and there again is a problem that is going to require the deepest thought and greatest cooperation.

Business will have the task of financing its new production. It is going to require tremendous amounts of capital to change business over from an economy of war to an economy of peace, and, of course, we will have to participate in paying off the deficit of government.

Then, too, we will have many of the social and political problems. I don't propose to go into them at all, and I don't propose to do anything more here this evening than enumerate some of these things, with the hope that perhaps my coming down here may have stimulated some thinking on these very difficult problems.

When our affairs are being readjusted we probably will develop many hatreds, political and otherwise. The larger problems will have to be left to our statesmen and our politicians.

When this show is over we shall find much of our equipment worn out. We are going to find, and are finding today, of course, terrific shortages of peacetime capital and consumer goods. We are not making any refrigerators, automobiles, trucks, household appliances, and so on. We are wearing out our railroads and pounding to pieces the rolling stock. We are wearing out our highways and also consuming the things that run on our highways. We are not adding to our communications system. We are living, so far as the telephone communications system is concerned, on past prudence and good long-term engineering. Already in the communications system we are developing shortages. Ordinarily, it wasn't a well-engineered telephone job unless we provided equipment for from two to five years ahead. That was the economical way of doing business. Today, we can't obtain the raw materials to do many things.

That same thing applies to our railroads and our other utilities, and right up and down the whole line of industry, so that there is going to be, when we wind up this war, a perfectly tremendous backlog of consumer goods and capital goods that will have to be made.

We have a public that has more money than it ever had before in its history. Our people, whether they have wanted to or not, have been saving, and they have been saving money because they couldn't spend it. Those savings will be available. There is plenty of cash ready to go into the market just as soon as you and I and the other producers produce the goods, or to go into capital investments to assist us in producing the goods.

I think that, when this war is over, we are going to be confronted with the necessity of returning to some old-fashioned economics. We will return to the law of supply and demand. We will return to the situation where that business is most successful that delivers a product or service of highest quality at the lowest price. That type of economics has been repealed during this war period. It has been speed of production regardless of price.

We in the telephone business have had a policy, for years, which we consider our golden text, and that is to furnish the best possible telephone service at the least possible cost consistent with financial safety, and with due regard to the well-being of the men and women who produce that service. We have been unable to do that during this period. We haven't repealed that best possible service at lowest cost. We are still trying to do it, and we are perhaps furnishing the best possible service under the circumstances that exist. Our automobile people have furnished you and me in the past the best possible automobile at the least possible cost, as have our tire people, our vacuum cleaner people, our refrigerator people, and so on down the line. Business has been conducted on that policy. It is the only way that a business can carry on successfully. When this war is over, your business and my business and all business, I am certain, must return to the old theory of quality and price.

I think we must develop and improve relationship between management and labor. We must have a relationship, if we can, that is less of conflict and more of cooperation.

Then we will be confronted also with making the best peacetime use of things that research and development have brought into being as a result of the war effort. There are some perfectly marvelous things being done in relation to the war effort that will have a peacetime application, and business will be required to solve, when peace comes, the problem of making the best use of and marketing the things that were created through development and research as a result of war. Such fields as plastic and chemistry have great possibilities, and great strides have been made in the airplane.

The automobile and radio perhaps were the two outstanding things that helped us out of the difficulties of the last war. Certainly they had their development during the war. It seems to me that that development will become rather insignificant as compared with what is in store in plastics, chemistry, physics, and in the transportation industry as represented by the airplane.

Then, too, we will have to participate in the job of world rehabilitation. War is a destructive element. Such countries as China, India, and Russia can still perhaps be regarded as backward, but they are having an awakening and they are going to be in our markets with perfectly tremendous demands for the goods that you and I can make available for them.

Now what about post-war planning itself? I can tell you only some of the things that we, in our humble way, are trying to do in our business. Several months ago I appointed a committee of top executives, not to spend their spare time in post-war planning but to spend, on a scheduled basis, a considerable time in post-war planning. There are many jobs that we know today must be done right after the war. There are many of our margins that have been exhausted that must be restored. Without going into detail, after only a few months that committee made a report to me on the first of April for our little company here in Ohio. It found $52 million worth of work that should be done in The Ohio Bell Telephone Company just as soon as the material and finances are available.

Now $52 million is just $52 million, but that represents two years of the biggest capital expenditures that The Ohio Bell Telephone Company ever had in its history, two years of work.

We are trying to see what the picture will be if business is slow, even if we recede from our recent volume, which, so far as we are concerned, would be helpful in some respects. In trying to set up and picture ahead what the situation will be, we are looking forward only two years. We will drop the year 1943 if peace doesn't come this year, and in the fall begin taking on 1945, and we will look over the picture continuously in that way and keep reviewing it.

Similarly, a larger committee is working on the problems for the Bell System, and to date it has come to the conclusion that to re-establish the communications system of this country on the same level that it was before the war would require $1.5 billion of capital expenditures. It is speculating also into new things. For example, there isn't a cable today across any of our oceans. Communication is all done by radio. While it is good, it has a considerable amount of unreliability in it. Our men know today how to lay a cable across the Atlantic Ocean and make it talk, and then, of course, it would be free from all of the electrical disturbances and the elements. Our scientists are engaging in experimenting as to where television is likely to take us.

Today, the Bell System Laboratories have 6,000 scientists and assistants, nearly 5,999 of whom are putting in full time on Army and Navy problems, but many of the problems that are being worked on are in the field of communication, and these post-war planners, so to speak, are studying the adoption of the results of the studies of the scientists.

Now business, I think, has been making a very fine record. It was accused of being somewhat soft before the war. I think the demonstration of production indicates that we are a tough nation and that our businessmen know how to produce if given half a chance. We are going to have returned to us several million boys who have had a training under these wartime circumstances that they never could have gotten otherwise. I have three sons myself, and already I can see that my boys are receiving training that is far better than they were having in the universities which they were attending, and better than they were getting under their parental roof. My less-than-nineteen year old, who is a paratrooper, wrote me a letter the other day, and he said, "Dad, when I get home, command me to work in the garden and I will say 'Yes, sir,' and do it."

There is a great potential of capacity, of capability, that will be available for us businessmen to use when and as these boys come back.

We can't conduct a business, no one can, without profits. There must be a return on investment and a return to the ideas of profit. The businessman must be encouraged, and he must have a reward for his achievement. There is some indication, as all of us know, that if a man makes over X dollars these days, he should have it taken away from him. That isn't much of an incentive. We are all perfectly willing to pay taxes. I would just like to cite you one example, with which I am sure all of you will agree, of the type of man, if we could find that man, which we would be glad to reward by giving him a million dollars a year for the rest of his life. If we could find a man today who could solve the submarine menace, it might be a good investment to give him a million dollars a year for the rest of his life.

There must be a reward for achievement and a reward for the right kind of achievement. There just isn't any limit as to what that reward shall be. Business cannot succeed without profit, because from profitable business has grown our schools, our colleges, our churches, our great medical philanthropies, support of our local and state governments, and, if you please, your job and mine. Business without profit is a disaster to the stockholder, it is a disaster to the management, and it is a disaster to the worker.

Now I have just rambled along. I haven't been thorough, but I have been that way on purpose. I have tried simply to suggest for your thinking many miscellaneous items.

In closing, I want to leave with you this thought: If we will encourage American business and the American businessman in his peace efforts as we have encouraged him in his war efforts, there isn't any question in my mind but that we shall have a most encouraging and happy future ahead of us.

CHAIRMAN WILLCOX: Mr. Eide, in behalf of the members of the Accounting Department of the University and the members in attendance at the Sixth Annual Institute, I wish to express our appreciation for your very capable remarks. I think you have given us something that we can think about real seriously. I suspect that the members of the Accounting Department will go into a huddle next week to discuss what we are going to teach after the war. Some of you fellows will go home and go into a huddle and wonder what you are going to do about your various and sundry problems, because certainly Mr. Eide has suggested many things to cause us to think in the days to come.

THIRD SESSION

SATURDAY, MAY 22, 1943—9:30 A. M.
Commerce Auditorium

Chairman:

JULIAN A. HAWK, C.P.A., *Arnold, Hawk and Cuthbertson, Dayton; President, The Ohio Society of Certified Public Accountants*

Address: "War Contract Renegotiation Problems"

CARMAN G. BLOUGH, C.P.A., *Chief, Contract Review Branch, Procurement Policy Division, War Production Board, Washington, D. C.*

Address: "War Contract Termination Problems"

GEORGE S. OLIVE, C.P.A., *Geo. S. Olive and Company, Indianapolis; President, The American Institute of Accountants*

Address: "Accounting Problems Arising from the Termination of War Department Fixed-Price Supply Contracts"

MAJOR JACOB B. TAYLOR, *Fiscal Division, Headquarters, Army Service Forces, Washington, D. C.*

INTRODUCTORY REMARKS

By JULIAN A. HAWK, *C.P.A.*,
Arnold, Hawk and Cuthbertson, Dayton;
President, The Ohio Society of Certified Public Accountants

Once again it is the privilege of the Ohio Society of Certified Public Accountants to participate in this annual Institute of Ohio accountants sponsored by The Ohio State University. On behalf of the Ohio Society, I want to express our appreciation for the opportunity which these annual meetings afford. During all the years of its existence, this Accounting Institute has maintained the highest standards, not only for the timeliness of the subjects which have been covered but also in the quality of the speakers who have appeared on the programs. The Ohio Society's membership looks forward to these meetings as one of the high spots on its annual calendar of events, not only for the educational benefits which are provided but also for the splendid opportunity afforded us to meet and renew acquaintances with those who are interested in the profession of accountancy.

I like to think of the profession of accountancy as young but vigorous. I like to believe that it has not only high standards of practice and procedure, but also that it has ambitions to fulfill a much more important place in our national economy than has as yet been accomplished. Meetings such as the Ohio State Accounting Institute do much to give us vision of what lies ahead.

Our program this morning is based on the general subject of accounting for war contracts and the process of renegotiation or termination. These subjects are of vital interest to accountants, both public and private, and many of us are having problems to meet at the present time in these fields. Bankers and other credit grantors are also intensely interested in the balance-sheet presentation of these items.

The first of the topics listed on the program this morning is "War Contract Renegotiation Problems." I know that many of you are here this morning especially to hear the discussion of this interesting subject by such an able speaker as Carman G. Blough. Mr. Blough is located in Washington, D. C., and is Chief of the Contract Review Branch of the Procurement Policy Division, of the War Production Board, and serves as the War Production Board representative on the Price Adjustment Boards of the War and Navy Departments and the Maritime Commission. Prior to accepting this position, he practiced public accounting in Chicago and New York, as a partner in the firm of Arthur Anderson and Company. Mr. Blough is a certified public accountant and is registered in various states. He is a member of the American Institute of Accountants, and the American Accounting Association. He has written many articles appearing in various accounting and business journals, and has been in great demand as a speaker.

Mr. Blough is a graduate of Manchester College, in the University of Wisconsin, and has taught accounting and finance at the University of Wisconsin and the University of North Dakota. In the last-named school, he was chairman of the department of accounting. His experience has been varied, since he has been in public practice as well as serving in the various governmental agencies. In Wisconsin he served with the State Tax Commission, where he was concerned with the income tax and, later, with the evaluation of public utilities. He has also served as consultant for the Illinois Commerce Commission. When the Securities and Exchange Commission was formed, Mr. Blough served as the first Chief Accountant, and of course is responsible for a lot of the pioneering work in connection with the accounting regulations promulgated by that body.

Mr. Blough will speak to us this morning on "War Contract Renegotiation Problems." Mr. Blough.

WAR CONTRACT RENEGOTIATION PROBLEMS

By Carman G. Blough, *C.P.A.*,
Chief, Contract Review Branch, Procurement Policy Division,
War Production Board, Washington, D. C.

The subject of renegotiation is currently quite important to war contractors and to their accountants, but I am somewhat at a loss to know how to start and what to cover in talking to a group of this kind, because I don't know how many in the audience have already gone through renegotiation, or are in the throes of it, or have actively participated in the procedure, how many are just getting ready to do so, and how many know little if anything at all about it. In order to try to be of some assistance to all, I shall try to cover the entire field briefly.

Most of you know that the so-called Renegotiation Act was passed and became law on April 28, 1942. The purpose and need for renegotiation grew out of a number of things that took place prior to that time. As you all know, when we were preparing for the war, and then after we got into the war, it was necessary for the government to let a great many contracts for a great many things that nobody had ever made before, and for a great many things that had been previously made, but not by the persons to whom contracts were let, and for a great many things that had been made by the contractors to whom the contracts were let but not in such quantities as they were then being required.

The result was that it was impossible for anybody to determine with even reasonable accuracy what many of the articles would cost, in the volumes that were being required for the government. Through no fault of any one, contractor or government contracting officer, prices were fixed at amounts which resulted in profits out of all proportion to what was intended by either the contractor or the contracting officer. Just one illustration to indicate how that worked.

A certain company was approached with a request to manufacture a given piece of ordnance equipment. The contractor said, "Well, yes, I will be very glad to do what I can." He had had a great deal of experience in building equipment of the size and quantity that was required in this instance, but never of this type. He said, "How much should I expect to be able to do this for?"

The contracting officer of the government said, "Well, I really don't know. We know that they have been made on a sort of hand-made basis in the arsenal at a cost of approximately $10,000 a unit, but we have no idea how much they should cost in this volume."

"Well," the contractor said, "if in quantity we can't beat the arsenal's prices by at least 20 per cent, we ought to go out of business, so I will take the order at $8,000 per unit."

He took the order at $8,000, set up a line for mass production, which was possible in view of the quantities that were required, designed machines to do the work of 15 or 20 men, and ended up with a cost which made it possible for him to lower his price to somewhere in the neighborhood of $3,500 a unit. He didn't know that he was going to make such large profits, and neither did the government contracting officer. Nobody did. But there were many such types of contracts entered into, with the result that many companies made highly excessive profits.

Many contractors volunteered reductions in prices, and a number suggested that they would refund to the government amounts which they had already received. Congress, recognizing that there must not be the scandalous or highly excessive profits on war contracts during this war that there were during the last war, gave consideration to what should be done to eliminate excessive profits. The discussions centered around a percentage of cost or a percentage of selling price, sometimes before income taxes and sometimes after income taxes. As I remember, the discussions ranged all the way from about 2 per cent of sales before taxes to 5 per cent of sales after taxes. Nobody knows better than you, as accountants, that applying any such arbitrary percentage, if high enough to take excessive profits from all companies, brings extremely severe hardship on other companies, and, if placed low enough not to bring hardship on any company, would leave highly excessive profits with many.

Under Secretary of War Patterson, Under Secretary of the Navy Forrestal, Mr. Donald Nelson, chairman of the War Production Board, and others appeared before Congress and objected to any arbitrary percentage limitations. In their discussions before the congressional committees these men told what they had been doing in the way of conducting voluntary renegotiation proceedings with contractors. The congressional committee liked what they reported and decided that if it was good for those contractors who would do it voluntarily, it wasn't a bad idea to apply to everyone, so it drafted legislation which provided that the Secretary of War, the Secretary of the Navy, and the Chairman of the Maritime Commission should determine whether excessive profits had been realized or were likely to be realized on contracts let by their departments, and authorized them to renegotiate their contracts, directing them thereby to recover excessive profits already realized and to prevent the earning of excessive profits in the future.

Under the law, each of the three departments set up a Price Adjustment Board, to which were assigned the responsibilities for the administration of this renegotiation work. The responsibility and authority of the Secretary of War were delegated to Under Secretary of War Patterson, and he, in turn, delegated the responsibility of developing the policies and administering the procedures to the Price Adjustment Board of the War Department. The Secretary of the Navy delegated his responsibilities to Under Secretary Forrestal, and he, in turn, delegated to the Price Adjustment Board of the Navy Department. Admiral Land, Chairman of the Maritime Commission, also created a Price Adjustment Board and gave it similar responsibilities.

There were a number of features in the law as it was first passed which were particularly objectionable to the contractors. The contracts might be held open for settlement until three years after the close of the war. There was a question as to whether loss contracts could be used to offset excessive-profit contracts. There was doubt as to whether the income taxes that had been paid on profits subsequently found to be excessive could be used as an offset against them. There was a question as to whether the departments could give a binding agreement which would for all time close this question of excessive profits. All of those questions were discussed and cleared up in an amendment which became law in October, 1942, as a part of the Internal Revenue Act of 1942.

In the same amendment, the Secretary of the Treasury was also given the renegotiation authority and responsibility. He in turn delegated to Clifton Mack, the Director of the Procurement Division of the Treasury, and he in turn has set up a Price Adjustment Board in the Treasury to handle the work.

The Maritime Commission's former responsibility for chartering, supplying, operating and repairing ships, etc., was transferred by executive order of the President to the War Shipping Administration. In line with that transfer of responsibility for such contracts, the President transferred to the War Shipping Administration the responsibility for their renegotiation, and Admiral Land, as War Shipping Administrator, established a Price Adjustment Board in the War Shipping Administration.

Because of the interest of the War Production Board in renegotiation from the standpoint of the effect that it might have on war production, Chairman Donald Nelson entered into an agreement with the various renegotiating departments under which he would nominate a person to be appointed by them to their respective Price Adjustment Boards. He chose to nominate the same person to each of the Price Adjustment Boards, so as to assist in coordinating their work, to help keep their policies and procedures the same, to bring the attention of the various Boards to any differences that might arise, and in general to know what is going on in renegotiation and to participate in the decisions of all departments. At present, I am that person.

The process of renegotiation is one which many people have talked of as though it were something very mysterious. Probably that is due to the nature of the task. In fixing a definition of excessive profits, Congress was very helpful! It defined excessive profits as 'those profits which shall be found to be excessive'! I don't know that there is any better general definition. I have been trying to develop one I like better, but have not been successful. Neither have any of the other members of the Price Adjustment Boards, who are equally anxious to find a good over-all definition. We have all concluded that it comes down to a matter of judgment with respect to the individual circumstances in the individual case, that it is a matter of evaluating the job and arriving at a judgment as to what is a fair compensation for it.

Under the powers of renegotiation, the government can go to a contractor who has already received compensation for his goods or services, decide that he has received too much and negotiate to take it back from him. This power seems to give contractors considerably more concern than they have with respect to the government's power to fix prices in advance by negotiation or mandatory order. We know that when the contracts are entered into from time to time there may be inequities and injustices done between companies. One company may get a better price than another, or a poorer price. The contractor may misjudge; the contracting officer may misjudge; the result of original procurement mistakes may be grossly inequitable; yet nobody thinks that it is un-American to enter into a negotiated contract. May it not then be questioned whether renegotiation as a part of procurement is so un-American in its nature?

The power of the government to make an arbitrary finding, dictate the terms, and require compliance is not a new element. It existed in the power of mandatory order at the time of the original procurement, though it was seldom used. We must not forget that in wartime, during the last war and during this war, the procurement departments have had this unusual power, yet very few have worried about it or considered it un-American.

With this power of mandatory order, the contracting officer of the government, who is dissatisfied with a price which is being asked by a contractor, may get his department to issue an order requiring the contractor to take the job and do it at the price specified by the government. If the contractor is not satisfied, he can sue in the Court of Claims for anything more to which he thinks he is entitled. That power is not very different from that which the department has if it is impossible for a renegotiator and a contractor to reach an agreement as to whether an excessive profit has been or is likely to be realized, and the amount thereof.

The process of renegotiation is much the same in each of the departments, though there are differences in the form of organization. For example, the Army will have to renegotiate approximately 80 per cent of the cases. Naturally, with such a large job, it had to organize its work differently. It has, therefore, set up approximately 45 different subdivisions in the various services. For example, in the Ordnance Department there is a Price Adjustment Section in Washington under which there are 10 or 12 divisional offices in which Price Adjustment Sections have been established. The divisional sections enter into the preliminary agreements with contractors, send up their recommendations to the Price Adjustment Section of the Ordnance Department in Washington, which reviews it, and, if it approves, sends it to the Price Adjustment Board of the War Department for final approval, after which it is ready for the signature of the Under Secretary.

The Navy Department, with less than a fourth of the War Department's job, has set up one Price Adjustment Board, with two subsidiaries, one in San Francisco and one in Chicago. In New York, the Board has set up a branch of the main Washington Board, the policies, however, being formulated in the Washington group.

The Maritime Commission, the Treasury, and the War Shipping Administration, having much smaller jobs, have only one Board each.

Although the administrative set-ups are different, the actual principles, policies, and procedures followed in renegotiation by all the Boards are the same. Meetings are held jointly by all of the renegotiating staffs of all the Boards at regular intervals, every two or three months, at which times cases are discussed in considerable detail and efforts are made to bring the valuation sights of those who are involved closer together so that the judgments of one group, under a particular set of circumstances, will be more nearly like the judgment that would have been arrived at by some other group. There are bound to be differences. A Board in California, even though following the same principles, policies, and procedures, may differ from a Board in Boston unless they get together quite often. Two people in adjoining offices may differ in their judgment. That, however, is no more true and probably no less true than in the case of our district courts scattered around the country. Qualified persons differ in judgment, and, therefore, there will be differences in settlement. That is inherent in any judgment determination, and renegotiation is fundamentally a matter of judgment.

A renegotiation is a discussion between the representatives of the contractor and the representatives of the government. All of the facts that are involved in the company's operations are considered insofar as they can be brought out. Usually, before the renegotiation a certain amount of basic statistical information is called for. The company's annual financial statements from 1936 through the last fiscal year, a statement with respect to the company's renegotiable business and non-renegotiable business for 1941 and 1942, or for the fiscal periods beginning in those years, a statement as to the methods that were followed in segregating renegotiable from non-renegotiable business, an explanation as to the methods followed in the distribution of costs, data with respect to the company's operations, what it produces, etc., are some of the things generally required.

In addition to this type of information obtained from the contractor, the price adjustment representatives get from the contracting officers, and other government sources, information with respect to what the contractor has done, his performance, pricing policies, what his competitors are doing, what other companies in the same field producing similar material are being paid, his comparative efficiency, his cooperativeness, the extent to which he has furnished "know-how" ideas and suggestions to the government or has relied on others for them, and so forth. Having accumulated all of the data which they can reasonably get which throws a light on the operations of the contractor and the kind of a job he has done, the government's renegotiators ask the contractor to come in for a conference. They may have one, two, three or possibly more, usually one or two, conferences with the contractor, in which he is urged to present all of the things he sees from his angle which justify the profit which he has made or the profit which he thinks he should be allowed to retain. After the contractor has presented his case as he sees it, an attempt is made to reach an agreement as to what is the amount of excessive profit, if any, which that particular contractor has realized on his renegotiable business. I will discuss shortly what constitutes renegotiable business.

As I said a bit ago, the determination of what constitutes excessive profits is a problem of judgment. There are many, many factors that must be considered. It is impossible to develop any practical mathematical formula by which the various factors could be applied to different cases. There are so many shadings to the factors. The same is true of almost any valuation problem. For example, if you were attempting to determine what you would be willing to pay for a certain piece of property, you would first inquire into many factors—transportation to your customers and from your suppliers, the nature of other businesses in the locality, the cost of reproducing the buildings and equipment, labor costs in the area, whether labor is organized, whether it is friendly, the amount of the taxes, etc. After such a survey of the factors, you would say, "I would be willing to give $150,000 for this piece of property." Would you be able to set down all the factors and the percentages or values that you had applied to each in evaluating that property to arrive at the amount that you would be willing to pay? If you could, you would be very much the exception among business men, at least among those in my own experience.

That is the problem of those who participate in the renegotiation procedure. One must have a conception of the various elements of risk that a contractor has taken, the extent to which he has had to depart from his customary lines of manufacture, change his plant and machinery, and train his organization, the extent to which his plant is likely to be useful after the war is over, how far it is likely to be necessary to reconvert in order to get into a peacetime business, how extensively his employes will have to be retrained or new ones trained to go back to peacetime business. This must be compared with profits considered fair for contractors who are using the same machines, the same organization set-up, the same production line, the same kind of employes trained in the same way to do the same job they were doing in peacetime, and who, after the war is over, are likely to go ahead doing the same kind of business.

All these and many other things enter into a judgment as to what is or is not an excessive profit for a particular company under a particular set of circumstances; and there necessarily must be a mystery in the process, because the workings of the mind are mysterious. Three representatives of the government, sitting in a room and hearing identical facts, will often arrive at different figures. When this happens they discuss the matter among themselves until they are able to reach a determination which they are willing to agree upon and to present to the contractor.

No one can tell how another man's mind works; indeed no one can describe in satisfactory detail the way in which his own mind has worked. It is sometimes possible to state, and the Boards often do state, the major factors to which they gave consideration, but there are so many things in the course of a presentation that affect a man's judgment that it would be impossible to mention them all.

After the Price Adjustment Boards have determined on a figure which they believe to be the proper one, if they cannot convince the contractor that it is proper, or if the contractor cannot bring them to his own views, there may be an impasse. In the case of the Army, if there is an impasse in one of the district Price Adjustment Sections, the case goes up to the headquarters of the service involved. If there should be an impasse there, the case goes to the Price Adjustment Board of the War Department. In any department, if there should be an impasse with the Price Adjustment Board of the Department, the Board would certify the matter to the responsible head of the department, who would then be faced with the necessity of determining what he should do. Since that has never yet had to be done, I can't say what any of them would do. There are several things they might do. Presumably, they would make a finding of the amount of excessive profits. Then they could issue an order for the withholding of payments to the contractor in the amount necessary to make up the excessive amount; or if nothing were due they could bring suit in court; or they might choose to turn the contractor over to a legislative body for public investigation. This is pure speculation, however, because we have had no such cases to date.

Contractors often ask if there is some percentage they can apply. There is not. Percentages in one line of business may be very different from those in another line of business. For example, a company that purchases in large quantities standard commodities, which it assembles into units to be sold to the government, may do 3 or 4 or 10 per cent of the work required to produce them. That company's profit from the sale of the product of this job should bear nowhere near the same relationship to its selling price to the government as should that allowed a company which manufactured the parts from raw material and assembled them. Because its risks are much greater, a company that requires a great deal of capital to perform a job should not be expected to work on as small a margin as one which requires but a small amount of capital. Unless they are in the same field of production a company with a rapid turnover of it capital, 10, 12, 15 times in a year, is not entitled to as large a margin per dollar of sales as the one which can turn over its capital but once. On the other hand, of two concerns engaged in the same kind of manufacturing, the one able to turn over its capital the greater number of times has a better organization, is a more efficient operator, and should consequently be compensated at a higher rate.

It is impossible to say what the percentage may be. The Truman Committee reported that the percentage range is from .4 of 1 per cent to 22 per cent of sales. I can say that to date, in cases where excessive profits were recovered, over 92 per cent of the settlements did not exceed 15 per cent, and that 65 per cent of the settlements with all the Boards allowed profits which ranged between 7 per cent and 13 per cent of adjusted sales. But that doesn't tell you much about your own individual company. Your company may be one of that group that is entitled to a profit of .4 of 1 per cent, or of 1 or 2 per cent of sales, or it may be one of those that is entitled to a margin of 20 or 22 per cent. Those are the facts which, in the process of renegotiation, must be determined on a judgment basis. So far as the members of the Boards have been able to determine, it is only on this basis that renegotiation can be conducted in a way which will yield equitable results to all companies.

Many company executives talk about "leaving it to the income-tax department to take care of." Usually those who hold that opinion either fail to recognize that, if the income-tax department takes care of it, income-tax rates will be materially increased, or are identified with companies with profits so high that they conclude that the income tax rates can never be increased sufficiently to absorb their excessive profits without putting other companies out of business.

American businessmen are very short-sighted if they do not recognize that private enterprise cannot exist in this country after the war if it is charged with many serious indictments. Many prominent businessmen, and some who are not so prominent, very much fear that, in view of all the various forces, if there are any scandals with respect to business and its participation in the war effort, similar to those which were disclosed after the last war, there is a serious danger of retribution.

There are in the world today a number of forces working toward the elimination of private enterprise. If business is charged with this last straw of scandalous profit, of scandalous exploitation of the government in time of need, when the boys are being asked to give their all, and of saddling the burden on the backs of the taxpayers, it is going to be very dangerous, and the far-seeing businessmen in this country recognize that. As a result, some of the biggest and best of our corporate enterprises in this country have been some of the easiest to renegotiate. Some of them have renegotiated themselves, have come in with proposals to refund amounts as much as, and in some instances more than, the Price Adjustment Boards would have asked for, because they see and recognize that danger to private business enterprise.

For those who actually go into renegotiation, one of the biggest headaches is the preparation of material to be considered by a Board, particularly the determination of what business is renegotiable and what is not renegotiable. Any direct business with one of the five departments that I mentioned is subject to renegotiation. Any subcontractor under any direct contract—and not merely the immediate subcontractor, but sub, sub, sub, sub, sub, all the way back to the beginning—who produces something which enters into the end product purchased by one of these government departments is also subject to renegotiation.

The subcontractor is renegotiated, not by his customer, but directly by the government, so that the excessive profits which he as a subcontractor made from sales to a contractor, who in turn sold to the government or to another contractor, so that the work of each became a part of what eventually was delivered to the government, may return to the government directly rather than by the line of profit accumulation.

A manufacturer of machinery or equipment which is used in processing soemething, the end use of which falls into this renegotiable category, is subject to renegotiation, and anyone who makes any of the material which enters into the manufacture of that machinery and equipment which is to be used in the processing of something, the end use of which is for one of these five departments, is subject to renegotiation.

Real estate sold directly to one of these departments, or anything which becomes a part of such real estate, is subject to renegotiation.

On the other hand, sales made to other agencies of the government, such as Defense Plant Corporation, Defense Supplies Corporation, or the Department of Agriculture, are not subject to renegotiation, no matter how excessive the profits therefrom. If, however, the contractor wants them renegotiated they may be included, but only if they do not reduce the amount of the excessive profit which would otherwise be determined. Under those circumstances the Boards are willing to consider them as a part of the business subject to the renegotiation process, in order to enable the contractor to state that he has made a clean slate of renegotiable and non-renegotiable business with the government, and to say, "We did not make *any* excessive profits. We turned *all* of it back to the government." The Boards will not subject a contractor to the risk of a gift tax because he gave it back to the government in some other way. Any taxes which have been paid on excessive earnings are credited against the amounts refunded as the result of renegotiation.

With respect to what is not renegotiable, there are certain specific exemptions. For example, perishable commodities have been exempted. Both the Quartermaster Corps of the Army and the Navy have prepared lists of such items. Products of a mine, a well, of timber, or of other natural resources, which have not been processed beyond the form or state where they are first suitable for industrial use, are exempt. The purpose of that type of exemption was to encourage the holders of natural resources to deplete them for the sake of the war effort, despite high taxes, rather than to do what would normally be to their best interests; namely, to keep them undisturbed until they could withdraw them more gradually, with lower taxes, and so forth.

Sales (whether to a contractor or to a subcontractor), which will neither become part of an end product for one of these five departments nor a piece of machinery or equipment to be used in processing an end product, nor a part of such machinery or equipment, are exempt. In other words, desks, tables, adding machines, typewriters, writing paper, and things of that kind, which are bought by a manufacturer, whether he be a prime contractor or a subcontractor, are not subject to renegotiation.

Of those types of sales which, if made at the present time, are subject to renegotiation, those which were made on contracts not completed and fully paid for by April 28, 1942, are also subject to renegotiation.

If you had a contract entered into in July, 1941, for 100,000 units of a product, deliveries of which were to be made on order over the ensuing year, and some of the orders had not been placed or some of the orders had not been paid for prior to April 28, 1942, all of the deliveries under that contract are legally subject to renegotiation.

All those deals which were completed although not paid for prior to Pearl Harbor, the Boards are inclined to look upon with a pretty lenient eye. They do not feel that a profit, even though made with the government, if accumulated prior to Pearl Harbor, is as excessive as one relatively as large acquired after Pearl Harbor. That is the judgment of the men who have been formulating the policy pertinent to the administration of the Renegotiation Act.

This results in some long-term contracts being renegotiated even though the deliveries were made as early as 1939 and 1940, since they were not completed and fully paid for by April 28, 1942.

The necessity for making the cut-off at April 28, 1942, provides a big job for accountants. Some contractors have been able to trace their sales readily, not only those which are not renegotiable because paid for before April 28, 1942, but also those which must be distinguished between renegotiable and non-renegotiable business, because of their end use or for other reasons. From the type of sale they know the end product, no matter how many hands it may go through to reach the government. A company which manufactures something for airplanes, for example, doesn't have to make special inquiries to learn its ultimate destination, but knows it is going into airplanes that have been bought and will be paid for by one of the branches of the government, and that sales of it are renegotiable. There are many such products, concerning which there is no doubt about renegotiability.

On the other hand, many manufactured articles may be used for civilian use, while others of the same type are required by the government, and that presents a more difficult problem, which has caused a great deal of work for some companies. One man told me that his company had nearly 100 people working for the best part of three months, scrutinizing every invoice to ascertain the end use of every sale, and, when they couldn't tell from the invoice, following it down through the buyer. That was an unnecessary and unreasonable amount of work for that job. No general rules can be laid down, but in every company there is some reasonable approach to the problem, some way by which the company can, by a sample test, by a recognition of types of product, or by an inquiry as to the industry into which the products are flowing, closely approximate the correct amount of its renegotiable business. Anything sold to the railroads or public utilities, for example, is non-renegotiable. Frequently, the segregation can be made on the basis of classes, but if that is not feasible, a reasonable sample of invoices will usually suggest a fair basis of allocation.

Let me warn you, however, not to go ahead with a segregation procedure without getting clearance on it, lest the price adjustment authorities find some holes after you have done a lot of fruitless work on it.

The Boards try to be reasonable. Most of the renegotiators are businessmen who were not connected with the government a year ago, men who were in active business or who had retired from active business, but who know business problems and the factors which enter into business risks and business judgments, and they try to do the job of renegotiation on a businesslike basis. Most of the accountants who work under them have been senior or semi-senior staff accountants, with public accounting firms. While they may not in all cases be fully qualified, though most of them are, to make the best judgments, they are charged with checking and clearing with someone who is qualified. Consider your own case or the case of the company that is your client, if you are a public accountant. Then, knowing more about the business than anybody else, certainly more than any Price Adjustment Section man could learn in months, design what you consider to be a fair, reasonable, business-like way of doing the job, one which you would be willing to accept if you were sitting in the renegotiator's seat, and then submit it to the Board or Section assigned to your case. Explain your problem, discuss it. Let them punch holes in it, if there are any; if they find none, they will approve it, and you can go ahead with your job, but don't make the segregation through one of these terribly detailed procedures. There is no question but that the job of segregation is very important. It is, in fact, the heart of the renegotiation, because, until the amount of the renegotiable business and the profits flowing from it are known, there is no basis for renegotiation. So go about it in a reasonable way.

What about the accounting procedures? Generally accepted accounting principles and practices are recognized by the Price Adjustment Boards. A method of cost allocation offered consistently over a period of years, unless it seems to be grossly out of line or unreasonable under the circumstances, is likely to be accepted. If there has been a change in your operations to which your previous method of costing isn't applicable, use what you think is a fair procedure under the new conditions and present that method for approval.

Since the Price Adjustment Sections want to know on what basis you allocate your renegotiable and non-renegotiable business, and what principles you use for spreading overhead, factory burden, general administrative, advertising, consulting expenses, and so forth, present these matters clearly and concisely, and on a basis that you can justify before these men sitting here today. I will guarantee that if you can justify your methods before them, you can justify them before the Price Adjustment Board.

CHAIRMAN HAWK: I am sure that the remarks of Mr. Blough raised a lot of questions in your minds, which you would like to ask him, but I think it would be advisable to postpone the questions until the end of the session, so if you will just jot them down so you won't forget them we will get to them as soon as the other speakers have finished.

The next topic for discussion this morning is "War-Contract Termination Problems." It has been receiving a great deal of attention lately, not only in accounting journals but in the public press as well. It is a subject of great interest to all war contractors and their accountants.

The first speaker on this subject will be Mr. George S. Olive. Mr. Olive is the president of the American Institute of Accountants. He is a certified public accountant of Indiana, and has served as treasurer and president of the Indiana Association of Certified Public Accountants.

Long active in public affairs in Indianapolis, where he is senior partner of George S. Olive and Company, he has contributed much to the development of his city and state. He is a past president, and at present a vice-president and chairman, of the Industrial Commission of the Indianapolis Chamber of Commerce, and is also vice-president and chairman of the Tax Committee of the Indiana State Chamber of Commerce.

Mr. Olive has been a member of the American Institute of Accountants since 1919. Since 1929, he has been continuously active in the affairs of the Institute, serving on various committees, including those on education, professional advancement, public affairs, natural business year, appointment of auditors and cooperation with bar associations. He has been chairman of the Institute Committee on Cooperation with the Bureau of Economic Research.

Prior to his election as president of the American Institute, in 1942, Mr. Olive served in the period 1922-29 and 1937-41 as a member of the Council of the Institute, and, in the period 1940-41, as a member of the executive committee. He was vice-president of the Institute for the 1941-42 term.

Having had the privilege of attending the Council meeting of the American Institute of Accountants at New York last week, I know that Mr. Olive has a close personal contact with the very active committees of the Institute who are working on the problems of war-contract terminations. I know that he will have an interesting message for us. Mr. Olive.

WAR CONTRACT TERMINATION PROBLEMS

By GEORGE S. OLIVE, *C.P.A.*
George S. Olive & Company, Indianapolis; President, The American Institute of Accountants

The termination of war contracts for the convenience of the Government may take place under either of two major conditions: (a) by termination of individual contracts during the course of the war; or (b) by termination of contracts on a large scale at the conclusion of hostilities, or shortly thereafter. The serious economic dislocations and problems resulting from the latter condition are exemplified by the situation prevailing at the close of World War I. The War Department, on November 11, 1918, had contracts outstanding amounting to $7.5 billion. One company has already received contracts during the second World War to that amount. The War Department had about 30,000 contracts outstanding on Armistice Day, some of which were informal and required later legalization. By November 11, 1919, 22,500 had been adjusted, and by September, 1920, less than 1,000 remained for settlement. Recognizing the importance to the country's economy, the Government disposed of its contractual obligations with reasonable expedition.

On those contracts which were completed or practically completed, the War Department paid in full. There were unfinished contracts suspended on November 11, 1918, amounting to $3,834 million. Of these, $3,330 million were settled for $437 million, or about 13 per cent.

The Navy did as well. Of 1,495 contracts in force on Armistice Day, 835, amounting to $23 million, were cancelled without liability. On 194 contracts, amounting to another $23 million, the Government paid $3¼ million. On the other 466 contracts, the work was complete, or so nearly complete as to make cancellation impracticable, and payment was made in full. By November, 1919, only 128 Navy contracts and orders remained for settlement.

It doesn't take much of a prophet to guess that the Government won't get off as cheaply this time; if it does, there will be many a company missing when Standard Statistics calls the roll the following year.

While the problem of wholesale cancellation of contracts at the conclusion of the last war will no doubt be with us again and create similar difficulties, the problem of current termination of individual contracts is already with us on a fairly large scale. Reasons for such termination include: changes in procurement requirements of the armed forces; over-supply of some materials and equipment in proportion to the current needs therefore; inability to obtain sufficient basic materials to complete certain contracts on their originally scheduled basis; and failure of the contractor in some cases to perform the contract satisfactorily. These conditions are becoming more prevalent, due to the fact that the tremendous increase in wartime production during the past few years is now reaching a plateau, and cannot be expected to increase further very materially in excess of the present very high rate. Fortunately, the present problems are not so acute as they probably will be at the end of the war, due to the present ability to use inventories of materials on other contracts, or by other contractors, and the great over-all demand for war production, in contrast to a general reduction in production at the end of the war and virtual disappearance at that time of the demand for munitions. Furthermore, the marked drop in the demand for basic materials, and especially war products, at the end of the war may create a severe drop in the market values of inventories of materials and equipment especially designed for war production. These serious conditions are not present now, and, therefore, do not have an important bearing on present terminations.

Businessmen and representatives of the Government are already becoming apprehensive of the possible ramifications of wholesale termination at the end of the present war, however desirable may be termination of the war itself. This feeling is based in large part upon the large volume of contracts terminated at the conclusion of World War I, and the fact that the present volume of contracts outstanding is perhaps ten times as great as in 1918. Furthermore, the serious delays in the completion of termination settlements of some contracts at the end of the last war, running in many cases to several years, are also an ominous reminder of difficulties ahead. Alert and far-seeing individuals, therefore, are now recommending that post-war problems, especially in respect to contract terminations, be anticipated at the present time and every means be utilized to alleviate such problems as much as possible. It is reassuring that not only industry but the fiscal and procurement divisions of the Armed Forces are keenly aware of the crucial character of termination settlements and are striving to devise a sound groundwork.

Since so many contractors have most or a large part of their working capital tied up in war contracts, cancellation of such contracts, either during the course of the war or at its termination, obviously will place a strain upon such working capital in the liquidation of liabilities, especially if reimbursement from the Government is delayed to any extent. In this connection, provision should be made for correlating settlements of contracts with the Government and of subcontracts with the same prime contractor. Another problem is the continuing of substantial numbers of employees on the pay roll if no work is forthcoming, or the alternative of discharging employees and possibly providing for termination wages; in either case, funds are necessary. Certain regulation V loans and advances by the Government to contractors often contain provisions for delaying the liquidation of such obligations to assist contractors in making termination adjustments.

Whether taking place currently or at the end of hostilities, the problems of contract termination are manifold. Basically, they stem from legal considerations as to: termination provisions in each contract; interpretation of such provisions; and governmental regulations covering procedures of the Government and the contractor under termination settlements. In order to understand properly the accounting and auditing problems arising out of contract termination, it is necessary first to consider the nature of contract provisions for termination, which are the fundamental legal authority to guide the termination procedures.

Significance of Termination Articles

Much discussion is current today about "termination articles." This expression has led to a good deal of confusion among laymen, some even thinking that it refers to published papers. Actually, it is a technical term referring to that section or sections of the written contract which make provision for termination. Contracts presently in operation include a wide variety of such articles providing for termination for the convenience of the Government, their contents as to the determination of termination claims of contractors varying from elaborate formulae to a mere statement that the contractor will be reimbursed for costs incurred plus a reasonable profit.

In addition to the difficulties resulting from the wide variety of contract articles, as previously defined, the so-called standard articles frequently in use are unsatisfactory. For instance, article 14 of the standard fixed-price supply contract of the War Department (Form No. 1) requires the contractor to discontinue work, cancel orders, and terminate subcontracts chargeable to the contract, and transfer title to the Government covering completed and partially completed supplies and related items. It also requires the Government to pay the contractor for all completed items at the contract price and for the uncompleted portion of the contract, amounts representing reimbursement for actual expenditures applicable thereto and expenditures made in connection with the settling of obligations applicable thereto; plus payment for the profit on the uncompleted portion, computed as follows: Multiply the estimated profit which would have been realized on the uncompleted portion of the contract, if completed at prevailing rates, by the estimated percentage of completion of the uncompleted portion of the contract at the time of termination.

While the foregoing provisions are intended to be equitable to both the Government and the contractor, many problems obviously arise, such as the determination of the amount of profit which would have been realized and the percentage of completion of the uncompleted portion. Furthermore, the segregating of the costs applicable to the uncompleted portion from those applicable to the completed portion present many complications.

For some time the War Production Board has been working on a revision of article 14 of the War Department fixed-price supply contract with the hope of arriving at a standard article which might be applicable to all such contracts with all departments of the Government. Early drafts of this standard article contain an elaborate method for determining the amount of termination claims, which includes calculation of profit on the continued and discontinued portions of a contract at separate agreed-upon rates. Entirely aside from the merits or shortcomings of the settlement formula, the desirability of a uniform termination article cannot be too strongly emphasized.

Notwithstanding the existing termination articles and the one proposed by the War Production Board, officers in the Fiscal Division of the War Department are now preparing a manual for administrative audit of termination claims of fixed-price supply contractors which contemplates the settling of terminated contracts on a negotiated basis, as provided in their procurement regulations. This manual, which will be discussed in more detail subsequently, suggests the settlement of contracts on the basis of the total costs incurred, without a segregation between completed and uncompleted work. It provides generally that completed work will be reimbursed at the contract price, and that reimbursement for the uncompleted portion will be determined by deducting payments already made and to be made for completed work from the sum total costs incurred on the contract and profit thereon at an agreed rate. Such rate must not exceed the indicated rate, as determined by the contracting officer; but in the case of an indicated loss on a given contract, the contractor is to be reimbursed for his estimated cost applicable to the uncompleted portion, and at the contract price for the completed portion. Despite this provision, however, the manual emphasizes the total costs incurred on a given contract, rather than making a distinction between the costs of the completed and uncompleted portions, as is contemplated in existing termination articles and the WPB formula.

Eric Camman recently suggested before the wartime conference of the American Management Association, in New York, that, in lieu of a detailed uniform termination article, a general article be inserted in contracts, and a joint statement of termination policy be prepared by the interested departments of the Government, providing for: rapid settlement of claims; application of advance payments; a clear basis for reimbursement of costs incurred on uncompleted work, plus a reasonable profit; and the arbitration of only disputed portions of a contract. This procedure would be a practical approach to a difficult problem, securing the benefits of uniformity in contract provisions without sacrificing flexibility in the application of termination procedures to individual contracts.

Accounting Problems

Despite variations in termination articles of individual contracts and policies of different governmental bodies, most settlements of termination claims contemplate reimbursement to the contractor or sub-contractor for costs incurred and an allowance for profit. While determination of both cost and profit is primarily an accounting matter, the usual rules of accounting must necessarily be modified to some extent in the event of termination by considerations of government policy. As in the case of cost-plus-fixed-fee contracts, the Government does not recognize, as allowable items of cost for contract purposes, all costs actually incurred by the contractor and required to be recouped by him to prevent a loss. Since there is no established sales price when a fixed-price contract is terminated before completion, the question of allowable profit is largely a matter of government policy as to the amount to be allowed and the method of its determination.

In a way, terminated fixed-price contracts are thus reduced to a cost-plus profit basis. However, this arrangement should be distinguished from both the cost-plus-a-percentage-of-cost type of contract used in World War I and the currently popular cost-plus-fixed-fee contract, since in both cases the contractor is assured at the outset of being reimbursed for his costs as well as an allowance for profit. In the case of terminated fixed-price contracts, on the other hand, there is no assurance at the outset that the contractor will recover all his costs or how much profit he will make. His risk is thus considerably greater than on so-called cost-plus contracts. For this reason, the Government is usually more liberal in recognizing items of cost and in the rate of profit allowed. It also does not consider such terminations as in violation of existing statutes prohibiting the use of cost-plus-a-percentage-of-cost contracts.

Termination articles in contracts generally contain little guidance to the determination of applicable cost other than the statement that settlement shall be based in part on total costs incurred or costs of the uncompleted portion and authorized expenditures incident to the termination. The provisions of TD 5000 and of the so-called "green book" may be of some assistance, although these documents are more applicable to cost-plus-fixed-fee contracts, and even then are not always followed. The previously mentioned War Department manual for administrative audit of termination claims of fixed-price supply contractors, however, does contain a section on the determination of allowable costs, which sets forth basic principles of cost accounting to be applied in termination settlements. Pending the formal release of this manual, reference may be made to the audit manual, which has already been incorporated as section F in the Army Ordnance procurement instructions. These instructions will probably be revised to conform precisely with the general termination manual of the War Department when the latter is released, but the changes are not expected to be material.

Chapter 5 of the Ordnance manual, headed "Principles of Cost Determination," contains the following general statement as to the allowance of costs:

> These provisions permit the allowance of those costs incurred which are incident to and necessary for the performance of the contract, are reasonable in amount and are stated in accordance with recognized accounting practices construed and applied in such manner as in the judgment of the Contracting Officer will carry out the purpose of the Article.

It is significant to note that, as indicated in the above quotation, the so-called Contracting Officer possesses extensive authority in the matter of passing on allowable items of cost and in settling the contract, regardless of other provisions therefor. Of further significance is the fact that "contracting officer" is a nominal expression loosely applied to designate the officer who signs a contract, and whose rank may be high or very moderate. Since many of these officers are not trained accountants, the attainment of an equitable settlement in termination in many cases depends upon the extent to which the contracting officer utilizes the services of competent government accountants to assist him.

This section of the manual contains the further statement that "costs may include, in addition to those directly chargeable to the contract, a proper proportion of indirect expenses or overhead." It describes various kinds of costs which may be allowed under certain circumstances, including: a reasonable allowance for depreciation at appropriate rates, including obsolescence; costs of designing and producing special tools; claims for loss of useful value of facilities; institutional advertising; experimental and research expenses; franchise and excise taxes; and accounting, legal, clerical and other expenses in connection with the termination of the contract.

In no less than six instances, the allowability of costs is limited by the statement that they be "in accordance with recognized accounting practices." While accountants generally will welcome such a reference as implying practical and flexible interpretations of cost for purposes of termination, the question might well arise as to what are recognized accounting practices for various cost elements. Since such practices naturally vary under the circumstances of different cases, no fixed rules of procedure can properly be set forth to cover all cases. However, certain types of cost may cause difficulty in the determination of their applicability to terminated contracts, and, therefore, it would be helpful if official pronouncements could be made as to such items for the guidance of contractors and contracting officers alike. It has already been suggested that the appropriate bodies in the War and Navy Departments issue joint statements interpreting troublesome cost items under contract terminations similar to the cost interpretations already issued by the War Department for application to CPFF contracts. As in the latter case, it would be especially desirable to have such interpretations reviewed by a competent body of practicing accountants before their ultimate release.

The Ordnance termination manual also sets forth certain cost items which may not be recognized in termination, such as amortization of emergency facilities provided for under section 124 of the Internal Revenue Code; advertising other than a proper proportion of institutional advertising; losses on other contracts; losses from sale or exchange of capital assets; legal and accounting fees in connection with reorganizations, anti-trust litigation and prosecution of claims against the Government; losses on investments; provision for contingencies; fines and penalties arising from failure to perform government contracts; conversion of facilities to other uses; expenses resulting from failure to discontinue obligations promptly after termination notice; and costs incurred in excess of the reasonable contract requirements. The unallowable costs are generally similar to those set forth in TD 5000, the "green book," and renegotiation statements, although the provisions for any one of these purposes are not necessarily applicable to the others.

In addition to the specific restrictions on allowable costs, the manual requires as an over-all limit that the aggregate allowance shall not exceed the contract price payable if the contract had been completed, less the amount of all costs estimated to be required to complete the contract. This is in effect the common law formula for the settlement of terminated contracts.

As already indicated, the accounting problems arising out of contract termination are basically those of cost accounting and the determination of cost. Such determination, however, should be distinguished from cost for purposes of CPFF contracts, due to differences in governmental policy as to allowability, which already have been mentioned, and differences in operation. Under CPFF contracts the contractor must submit cost accounting data currently to the Government as a basis for reimbursement, whereas under contract termination the costs for an entire contract, or at least for the terminated portion, are determined all at once and form the basis for a single claim against the Government, which is often subject to protracted negotiations before final settlement.

The question of allowability of individual items of cost is primarily a matter of government policy. However, the determination of the amounts of allowable items is basically a matter of cost accounting. Direct charges to a contract are not only easier to determine, as a rule, but are generally more likely to be accepted by the contracting officer. Indirect charges, on the other hand, are much more difficult to determine, are scrutinized much more carefully by the Government, and present the major accounting problem in termination.

The main problem in the determination of indirect charges applicable to terminated contracts is that of the allocation of indirect costs to individual contracts. Under some termination provisions, such as the standard War Department article, there is a further problem of allocating indirect costs between the completed and uncompleted portions of a terminated contract. Obviously, any method of overhead allocation must be reasonable and bear a proper relation to the work thereby charged. Any amounts charged to terminated contracts must have some relation to the work to be accepted.

Another problem of primary significance in terminations is that of inventory-taking and recording. Since termination comes before the completion of a contract, there will usually be inventories of raw materials, work in process, and finished goods applying to the contract. The finished goods can usually be billed to the Government at the contract price. Work in process will usually be a legitimate part of the termination claims, but the ever-present problem of costing such inventory may present some difficulties. This part of the inventory will usually be the major element in the termination claim, both in amount and significance.

While the inventory of raw materials will probably involve no difficulties as to cost, problems arise as to its applicability to the contract, and, in the case of common materials, how much, if any, can be charged to the contract.

A final inventory problem of real consequence is the proper accounting for the physical location, condition and control of the inventory, especially that which is part of the termination claim, since ownership then would vest in the Government and the contractor would be an agent of the Government. Such inventory consequently should be properly protected and accounted for.

Another accounting problem involved in termination is the control over expenditures in an effort to stop the incurring of expenditures on the contract as soon after the termination of the contract as possible; otherwise, such expenditures will not be paid for by the Government.

Since the contractor has primary responsibility for the claims of subcontractors under termination, the former should maintain adequate records and controls over the costs and billings of subcontractors. As is indicated hereafter, the contractor may have to make an actual audit of his subcontractors to substantiate the latters' claims.

AUDITING PROBLEMS

The usual procedure following termination of a contract is for the contractor to prepare a claim for reimbursement in accordance with the applicable termination article, and to submit it to the Contracting Officer. The latter may either accept the claim on the basis of an office review or require substantiation thereof through a field visit by a governmental auditor. It is the work of this auditor which is discussed herein.

Understanding of the work of the government auditor may perhaps best be obtained by reference to the previously mentioned manual for administrative audit of termination claims of fixed-price supply contractors, already issued by the Army Ordnance Division and still under consideration by the Fiscal Division of the War Department. In addition to the aforementioned section dealing with principles of cost determination, the manual includes a description of the general plan of settlement and of the contractor's procedures in preparing his claim, and material for consideration by the auditor as to the contractor's internal procedures, application of selective audit procedures and working papers and reports.

It is especially significant to note that emphasis is placed in the manual on test-audit as opposed to a detailed audit. In this respect the auditor is advised to consider: the size and complexity of the claim; extent of information supplied by the contractor; propriety of procedures and accuracy of computations apparent from an office review of the claim; reports of independent accountants; and the system of internal control of the contractor. The auditor may also give consideration to the previous examinations of the contractor's accounts in connection with cost-plus-fixed-fee contracts, renegotiation, OPA audits, etc.

It should be emphasized that the final decisions in termination rest with the Contracting Officer. The auditor merely assists such officer by obtaining such factual information as he deems necessary in the circumstances.

As a matter of government policy, it has been suggested that audits of termination claims by the various government departments be coordinated in a manner similar to renegotiation, so that unnecessary duplication will be avoided. Such joint undertakings might well be supervised by the Audit Coordination Committees of the Army and Navy, which are already coordinating audit work on CPFF contracts and time and material vendors' charges.

While the government auditor and Contracting Officer may no doubt benefit considerably by decisions of price adjustment boards and the work of cost analysis sections in connection with renegotiation of contracts, the functions of renegotiation and audit on termination claims should be kept distinct, and the work of each body should not enter the province of the other.

In the Ordnance manual previously referred to, it is interesting to note the special importance given to audit working papers. From the professional accountant's viewpoint, the following comments contained in the manual are of particular interest:

> Working papers serve two major purposes: (1) they are an essential historical record of the auditing procedures carried out and of all significant data and findings incident to and arising out of the audit; (2) they are an important

means of currently administering the auditing work. Working papers should therefore be prepared in such form as to achieve those objectives to the maximum extent.

The detailed and specific instructions contained in the manual concerning the form of preparation, the indexing, and the preservation of working papers could be read with profit by all students of accounting.

As to specific audit procedures, special consideration must be given by the auditor to the physical inventories at the time of termination, and the proper segregation of various elements therein, such as raw material, work in process, and finished goods applicable to the contract and to other work, material returnable to vendors, damaged materials, government-owned property, etc.

Special consideration is given by the auditors to indirect costs and their allocation to the contract. As previously indicated, direct charges are usually more acceptable to the auditors than indirect costs. Scrutiny of the method of allocating the latter is particularly significant where other contracts and non-government work are concerned.

It is the Government's policy that prime contractors should assume the primary responsibility for claims of subcontractors in termination. Before such claims are accepted, it may be necessary in some cases for the prime contractor, or his independent accountants, to make an examination of varying extent of the subcontractor's claim. There may be cases, however, where it would be more expedient for the Government to undertake such audits, especially where several contracts are involved, where the amounts are very large, or where the same contractor has both prime contracts and subcontracts subject to termination. Another factor in favor of a government audit of subcontracts is that peculiar relationship between contractors and their subcontractors resulting from their private dealings and the fact that the prime contractor is usually reimbursed for payments to subcontractors.

No discussion of governmental audits of war contracts would be complete without mention of the activities of the Institute's new committee on government audit of contractors' costs. This committee has rendered valuable assistance and advice to the War and Navy Departments in the preparation of cost interpretations and audit manuals, such as the one now in process. Following a review of various drafts of the latter document and consultation with War Department officers, the committee recently submitted a letter to the Director of the Fiscal Division, Headquarters, Army Service Forces, embodying fifteen specific recommendations with respect to government policy and accounting and auditing procedures in the termination of war contracts. While there is no assurance that these recommendations will be accepted, they are indicative of probable trends. These recommendations may be summarized as follow:

Recommendations of the Institute's Committee:

(1) The Committee approves the principle of settling termination claims by negotiation between contracting officers and contractors, believing this method should assure fairer allowance and quicker settlements than otherwise possible.

(2) The Committee fosters a policy dealing with terminated contracts on the basis of total cost and reasonable profit, treating as partial payments amounts paid on account of deliveries. It opposes allocation of costs between finished and unfinished portions of a terminated contract, believing the difficulties of fair apportionment preclude the use of the method. The Committee advocates the use of a reasonable rate of profit for the whole contract, after due consideration of the indicated rate of profit for the early stage of the contract.

(3) The principle of allowing a proper proportion of ordinary going-concern expense, such as institutional advertising, research and development, Federal capital-stock tax, and interest, has been approved, emphasizing that such expenses are necessary to the continued existence of corporations (although not caused by specific contracts), and that grave anxiety exists concerning a fair recognition of these items.

(4) On the subject of inventories, the Committee advocates an allocation of common materials to the needs of both war and civilian business, believing it inadvisable to discourage accumulation of materials required for uninterrupted flow of manufacture, because of the possibility of arbitrary and inequitable treatment of such materials upon termination, while at the same time protecting Government against unreasonable accumulation.

(5) There is a basic requirement that the total allowance to a prime contractor and his various sub-contractors shall not exceed the total of the prime contract. Also, prime contractor and sub-contractor have rights and responsibilities arising from their relationship differing from those existing between prime contractor and Government. Nevertheless, the Committee has urged a broad participation by Government in the audit of sub-contractors, because of the many practical business difficulties involved in placing that responsibility solely upon prime contractors.

(6) The Manual tentatively provides, and the Committee concurs, that the same principles governing allowable costs shall apply to both contractors' and sub-contractors' claims. Particularly when a business manufactures under both prime and sub-contracts, the practical advantages of uniform determination seem to require acceptance of this provision, despite the differences in relationship between the parties.

(7) The Manual, apparently, will avoid prescription of allowable cost practices, relying instead upon generally recognized accounting procedures. The Committee, rightly, points out that the applicability of cost accounting practices depends upon detailed consideration of all the particular and peculiar circumstances in each case, and that generally accepted practices are sufficiently understood to assure reasonable agreement among accountants. It has, therefore, concurred in a proposal to deal with unusual or debatable accounting practices arising in termination audits by referring them to the Accounting and Audit Supervisory Branch, and it has advocated that means be provided whereby the opinions of representative practicing accountants may be obtained quickly on important practices by reference to the Institute. The Committee has pointed out, also, that supplementary cost interpretations will be useful and satisfactory guides to contracting officers conducting termination audits.

(8)The Committee has recommended that examining officers discuss their findings with contractors before submitting their reports, to assure every opportunity to contractors to present additional data and arguments while auditors are still in the field.

(9) The Committee approves cooperation between contracting officers and Price Adjustment Boards, but without conflict between the respective functions of termination and renegotiation.

(10) The Committee strongly urges mandatory partial payments, and prompt and full payment of any substantial portion of claims that shall have been satisfactorily verified by contracting officers. With due regard to advance payments where claims are delayed, partial payments up to 50 per cent or 60 per cent of claims have been urged under protective provisions, including the right to withhold where contracting officers certify that the interest of the Government may be jeopardized.

(11) It has been urged that accounting procedures prescribed by the Manual be integrated with general termination procedure.

(12) The Committee has stated that the most difficult cost determinations relate to joint expenses affecting contracts for several Depart-

ments or more than one branch of a Department. While joint costs require accurate allocation between terminated contracts on the one hand, and unterminated or civilian business on the other, such accuracy is not essential as to terminated contracts of various government departments. The Committee has recommended audits by a joint agency, to be called a Board of Contract Settlement, which should be advisory to contracting officers and should direct audits. In order to avoid duplication, to expedite procedure, and to assure uniform policy, such a Board seems highly desirable.

(13) Were the Board established, the Committee urges that releases on cost practices emanating from the Accounting and Audit Supervisory Branch should be approved by representatives of all the procurement agencies.

(14) The Committee expressed the belief that a large amount of auditing on terminations will be unavoidable in complex mixed-plant cases, requiring competently trained personnel educated to the particular termination problems. It urged the early establishment of policy, so that experience may be gained on current termination problems before "V" Day.

(15) The Committee again urged that releases on cost practices be approved by the profession, through experienced practitioners familiar with the cost accounting practices of contractors. It pointed out that the Institute can serve industry, constructively, concerning the principles of termination settlement and in advocating accounts and records readily disclosing the data needed for termination settlements.

It should be obvious that the Committee's recommendation for the establishment of a joint agency to serve all of the military departments is of great importance, in that, by the development of uniform procedure in this difficult and complicated job of contract termination, a considerable saving in time and cost should be achieved. It is to be hoped that those charged with the administration of this work will give this recommendation the careful consideration it deserves.

This discussion of problems involved in the termination of war contracts has merely touched the highlights of this important subject. Much more could be said regarding the many detailed problems. For the present, however, it is hoped that this brief review of termination problems will serve as the introduction to a liberal education in this most important subject.

CHAIRMAN HAWK: Due to the importance of our program this morning, I am going to ask your indulgence in omitting the usual seventh-inning stretch and going on with our program.

The last speaker on the panel this morning is our own fellow member, Major Jacob B. Taylor. Perhaps a lot of us know a great deal about him that isn't on this sheet I have here, but, unfortunately, I must stick to the script.

Major Taylor is stationed in Washington, where he is attached to the Fiscal Division, Headquarters, Army Service Forces, and has had direct contact with the many problems arising out of termination of war contracts.

Major Taylor is a certified public accountant, registered in several states, and has had long experience in accounting and administrative work. He is a graduate of the University of Pennsylvania, and has taught accounting at the University of North Dakota and The Ohio State University, and has served as Chairman of the Department of Accounting at each University. At the present time he is on leave of absence from The Ohio State University.

Prior to joining the military forces, Major Taylor was Director of the Liquor Department of the State of Ohio, and was granted a leave of absence from this position late in 1942.

The Major is a member of the American Institute of Accountants and has served on several of its committees. He is also a member of the Ohio Society of Certified Public Accountants, and at one time served our organization as a director. He is a life member of the American Accounting Association and a past president of the Association. During his term as president, the American Accounting Association developed the *Statement of Accounting Principles*, which was so widely discussed. Major Taylor was instrumental in the development of this statement.

I now present Major Taylor, who will speak on the subject of "War Contract Termination Problems." Major Taylor.

ACCOUNTING PROBLEMS ARISING FROM THE TERMINATION OF WAR DEPARTMENT FIXED-PRICE SUPPLY CONTRACTS

By MAJOR JACOB B. TAYLOR
Fiscal Division, Headquarters, Army Service Forces, Washington, D. C.

Contracts between the United States Government and contractors covering the manufacture of the implements and accoutrements of war generally carry a provision which permits termination before completion at the pleasure and for the benefit of the Government. The standard termination article, which is included in many of such contracts, prescribes the procedures which are to be followed in the event of termination before completion.

Terminations are taking place currently and will continue to do so, due to the changes in needs and specifications brought about by changing requirements and by experiences being gained in waging a global war. When the victory is eventually achieved, it will be necessary to terminate abruptly a large proportion, if not all, of the contracts for war supplies and purposes. Therefore, consideration of the possibility of and the problems incident to termination before completion of such contracts would seem, at this juncture, to be a pressing and imperative need.

The Major Proportions of the Termination Problem

With termination of war contracts on "V" Day, there will arise the urgent need to speed reconversion to peacetime operations. This will require that the working capital of the contractor which is tied up in claims arising from termination be returned to him as quickly as possible, so that he might proceed to convert to his regular business operations without delay. Upon the speed of reimbursement and the equity of the settlement will depend, to a large extent, the length of the lag between the cessation of war production and the full resumption of regular operations.

In respect to the termination of fixed-price supply contracts, at least the following considerations will arise:

a. The disposal of the tools, equipment, facilities, and inventories in the hands of the contractor.

b. The need for immediate consideration of the contractor's claim for reimbursement of his allowable costs arising out of termination and the speedy and final closing of this matter.

c. The need for equitable consideration of the contractor's claim so that a portion of his capital will not be lost to him because of circumstances (termination) wholly beyond his control.

The proper sale and allocation of tools, equipment, facilities, and inventories (belonging to the United States Government as a result of the prosecution of the war) in such a way as to disturb the economy to the least degree are matters for special consideration as a part of some general over-all plan for post-war operation of industry. While not minimizing the importance of such considerations, their treatment and discussion cannot properly be dealt with here.

From the accounting viewpoint, the necessary procedures to provide for an equitable determination of the amount due to the contractor as a result of terminating a contract before completion and to secure speedy reimbursement after such determination are matters weighted with importance and fraught with implications of great interest. Therefore, the immediate attention of the accountant should be directed to these matters.

The Standard Termination Article

War Department Procurement Regulations (paragraph 324) require that every lump-sum supply contract, with minor exceptions, contain an article for the termination of the contract at the convenience of the Government. Among other things, this article provides:

a. For the reimbursement of the contractor for all actual expenditures and costs with respect to the uncompleted portion of the contract.

b. For paying the contractor a profit on the uncompleted portion of the contract. This profit allowance is based upon the Contracting Officer's estimate of the rate of profit which would have been realized if the contract had been completed. It also requires a determination of the percentage of completion of the uncompleted portion of the contract.

c. For paying the contractor, with the approval of the Contracting Officer, costs incurred after the date of termination and costs of settlement of the contract.

The termination article provides for a settlement through negotiation of the amounts due with respect to the uncompleted portion of the contract. In such a case, the Contracting Officer is given wide powers in working out a fair settlement with the contractor. The article specifically provides, also, that the Contracting Officer shall include in such settlement "such allowance for anticipated profit with respect to the uncompleted portion of the contract as is reasonable under all the circumstances."

The Difficulty of Determining the Cost of the Uncompleted Portion

Terminations under the standard termination article may, in most cases, provide some difficult accounting determinations. Foremost among these is the necessity of computing the cost of the uncompleted portion of the contract. This, of course, requires a separation of the costs incurred under the contract between the completed and uncompleted portions. Except in the rare cases where the cost accounting records are of such excellence that this information can be secured readily, the separation of costs incurred between the completed and uncompleted portions of the contract is a difficult task to accomplish.

In order to segregate the costs of the completed and uncompleted portions, it becomes necessary to determine the percentage of completion of the contract. It is obvious that costs incurred should not, in all cases, be related to the total estimated cost of the contract to determine the proper percentage of completion. In other cases, gross inequities to the contractor may result if the percentage of completion is determined solely on a unit basis.

With these difficulties present in the vast majority of terminations, a basis of settlement which does not involve such complexities should be selected for the applicable cases.

The Total Cost Basis of Settlement

By virtue of the fact that the termination article provides for a negotiated settlement, it is possible to avoid the rigid formula settlement with its difficulties of cost separation. Inasmuch as the Contracting Officer has the right to determine the amount of the settlement due to the contractor on the basis of negotiation with him, he may select some other suitable basis of cost determination.

As a guide to the Contracting Officer in effecting a negotiated settlement, there has been evolved in the War Department the total cost basis of settlement. In its essence this basis comprises the following:

a. Determination of the total cost of the contract to the date of termination (excluding claims of subcontractors and vendors and the estimated cost of settling commitments of the contractor, which are dealt with separately).

b. To this should be added an amount for profit. The Contracting Officer, taking into consideration all of the evidence which would indicate what profit, if any, would have been earned had the contract been completed, negotiates a fair rate of profit in the settlement. Before applying the negotiated rate of profit to the total contract costs, there should be excluded therefrom such items as the cost of standard raw materials in the inventory totally unprocessed at the date of termination and similar items which represent work not warranting a profit allowance thereon.

c. From the sum of the total costs and the profit determined by use of the negotiated rate, the amount of the payments already made and to be made is deducted. The balance is the indicated equitable claim for the uncompleted portion of the contract before deductions for salvage and excluding vendors' and subcontractors' claims.

The amount of the negotiated settlement, exclusive of costs incurred after termination, when added to the payments previously made or to be made is limited by the total amount of the contract.

The Negotiated Rate of Profit

With the Contracting Officer possessing the right to negotiate a settlement, it is thought desirable for him also to negotiate the rate of profit. The profit which would have been earned under the contract had it been completed, might, in some cases, be so high as to result in renegotiation proceedings. It seems futile, therefore, to use such a rate and, as a result, consummate a settlement which would seem inevitably to lead to a refund through such renegotiation. It would be wiser, therefore, for the Contracting Officer to negotiate a rate which is lower than the indicated rate and low enough to avoid later refund.

When the contractor has more than one contract, the Contracting Officer should determine whether losses on other contracts may offset a large profit on the terminated contract. Renegotiation would not be so likely to occur in this latter case, and it may be undesirable to negotiate a rate which is appreciably lower than the indicated rate.

The negotiated rate cannot be higher than the indicated rate but may be lower as the circumstances may require, especially where, as was suggested before, later renegotiation proceedings might require a refund.

Computation of Indicated Equitable Claims for the Uncompleted Portion of Contract

To illustrate the application of the procedures outlined in the foregoing, the computation of the indicated equitable claim for the uncompleted portion of the contract follows:

ILLUSTRATION A

Total contract costs incurred (excluding claims of subcontractors)		$1,000,000
Negotiated rate of profit—8%		80,000
Total		$1,080,000
Deduct:		
Payments already made for completed and delivered units	$600,000	
Payments to be made for completed units not delivered	58,000	
Total payments made and to be made		658,000
Indicated equitable claim for uncompleted portion of the contract before deductions for salvage and excluding vendors' and subcontractors' claims		$ 422,000

NOTE: In the above example, it has been assumed that the Contracting Officer does not feel that it is necessary to exclude from the cost base to which the agreed percentage of profit is applied any items of cost on the ground that they do not represent substantial work for the contractor. If the contract costs include any allowance for special obsolescence, a deduction should be made from the cost base for the purpose of computing the allowance for profit.

Losses Sustained

A contract may be terminated at a juncture at which it is clearly indicated that a loss would have been sustained if the contract had been completed. It is not the intention to "bail out" the contractor for the losses sustained on the completed portion of the contract. However, inasmuch as Procurement Regulations 324 provide that the contractor should receive reimbursement for 100 per cent of his costs for the uncompleted portion of the contract, no part of an indicated loss may properly be assigned to the uncompleted portion.

The computation of the indicated equitable claim for the uncompleted portion of the contract where a loss is estimated to have taken place on the completed portion is illustrated below. The total of the payments made on the contract, and those to be made, for completed units should be converted to the indicated cost of the completed units represented by these payments by application of the indicated percentage of loss. This converted cost will then be deducted from the total contract costs to date of termination to ascertain the indicated claim for the uncompleted portion before deductions for salvage and excluding vendors' and subcontractors' claims. This may be illustrated as follows:

ILLUSTRATION B

Assume an indicated loss of 6 per cent on the cost of the entire contract:	
Payments made and to be made for completed portion	\$658,000= 94%
Indicated cost of completed portion (A)	700,000=100%
Total contract costs incurred to date of termination	\$1,000,000
Indicated cost of completed portion (A)	700,000
Indicated equitable claim for uncompleted portion before deduction for salvage and excluding vendors' and subcontractors' claims	\$ 300,000
Total payments to the contractor plus the indicated amount of the claim would then be:	
Payments made and to be made for completed portion	\$ 658,000
Indicated equitable claim for uncompleted portion	300,000
Total payments and claims	\$ 958,000
Proof	
Total contract costs to date of termination	\$1,000,000
Less: Indicated loss applicable to the completed portion, 6% of \$700,000	42,000
Indicated payments (as above)	\$ 958,000*

* Before salvage deductions and excluding claims of subcontractors and vendors.

It will be noticed in this illustration that no loss was computed for the uncompleted portion. This is in line with the provisions of Procurement Regulations 324 cited above.

It should be pointed out in passing, that it is not always easy to determine whether or not a loss would be indicated if the contract were to be completed. There may be high non-recurring preparatory expenses and other "starting load" costs. It may be that these costs should be spread over the entire contract for the purpose of determining the profitableness, or otherwise, of the completed portion. Employee training and the adapting of even skilled employees to a new product may result in higher costs in the early stages. In other cases, the "break-even point" may not be reached until a large part of the contract is completed, and the profit earned may be realized, if at all, late in the life of the contract. In still other cases, it may be difficult to determine that the contractor would ever reach the break-even point by the end of the contract.

As a general rule, however, indicated losses on the completed portion will be treated as set forth in the foregoing illustration.

The Manual for Administrative Audit of Termination Claims of Fixed-Price Supply Contractors

There is being prepared in the Fiscal Division, Headquarters, A.S.F., a manual for the administrative audit of termination claims of fixed-price supply contractors. During the past four months, much time and effort have been put on the preparation of this manual. Out of this effort certain definite ideas and concepts have emerged. Among them has been the total-contract-cost theory of determining the base for the computation of the indicated equitable claim for the uncompleted portion of the contract. The negotiated rate concept came from the same source.

The termination audit manual, when completed and finally approved for publication, will be designed to assist the Contracting Officer and the accounting staff aiding him in dealing with termination problems of fixed-price supply contracts where settlements are on a negotiated basis. The reports produced as a result of following the accounting and auditing procedures in the manual are intended to be advisory only and to serve as a guide to the Contracting Officer. His is the final authority and the complete responsibility for negotiating a settlement with a contractor. However, it is obvious that he will need a great deal of auditing assistance, as many detailed complicated accounting problems will arise in the settlement of termination claims.

The War Department auditors, on the other hand, may have been spending a large part of their time and energy auditing cost-plus-a-fixed-fee contracts. Suddenly, they may be confronted with the necessity of meeting the exigencies of fixed-price termination claims and their proper and equitable settlement. If these auditors are to be able to assist the Contracting Officer in securing the proper information to effect settlement of these termination claims, they must be furnished with guides and a set of audit procedures and techniques suitable for the purpose and based upon a sound underlying philosophy.

The proposed manual is being prepared to meet these needs. In its present form it has progressed far enough toward meeting these objectives that the Ordnance Department has adopted it and made it a part of Ordnance Procurement Instructions. In this form and under these auspices, the manual will be given a test as to adequacy and sufficiency in the settlement of a great many current termination claims. With such a laboratory and out of such experience, it is hoped, will be gained the information and knowledge necessary to meet the gigantic auditing program which will be created on "V" Day. Thus, the long view is being taken, and, while there is yet time, ample thought is being given to many troublesome considerations which are sure to arise *en masse* later. It is the hope and the present plans that when "V" Day arrives the service auditors will be aware of the accounting problems incident to fixed-price terminations and thoroughly conversant with the procedures necessary to effect equitable settlements. This, then, is an objective which is to be met through the Termination Audit Manual.

Contents of the Manual

The manual, after describing the basis of settlement on a negotiated basis (most of which has been touched upon here), gives some space to the contractor's claim, in which the contractor will be given certain information and guides for the preparation of the claim. One of the most significant chapters in the manual is the one which deals with the determination of allowable costs. This cost definition will be highly necessary in any determination of total costs under the contract and should be helpful to the Contracting Officer and contractor alike in the negotiation proceedings.

Certain of the contractor's procedures, such as the taking of the physical inventory at termination, the determination of salvage values, and the treatment and handling of subcontractors' and vendors' claims, are given careful consideration and development.

The last half of the manual is devoted to a discussion of the applicable auditing procedures to develop a program for the specific case under discussion—fixed-price termination claims subject to negotiation through the use of the total contract-cost basis of settlement and through the use of the negotiated rate.

Determination of Allowable Costs

Before negotiation can properly take place, and before a determination of total contract costs can be made, some agreement must be had concerning certain items of cost. While T.D. 5000 was adopted in the preponderance of cost-plus-a-fixed-fee supply contracts, its use is restricted to that type of contract, and it does not apply to the determination of cost in connection with fixed-price contracts. Chapter 5 of the proposed manual sets forth the basis for the determination of allowable costs. It is significant that, while the information is presented in this chapter as a guide, the point is nevertheless made that the determination of allowable costs is placed in the hands of the Contracting Officer as required by the Termination Article.

The article provides that costs should be allowed which are incident to and necessary for the performance of the contract, are reasonable in amount and are stated in accordance with recognized accounting practices. The unusual items which are included in the determination of allowable costs, as outlined in Chapter 5, comprise the following:

a. A proper proportion of institutional advertising may be allowed.

b. Experimental and research expenses may be allowed to the extent that the Contracting Officer finds that such expenses are applicable to the contract in accordance with recognized accounting practice.

c. A proper proportion of franchise and excise taxes (including the declared value Federal capital stock tax, but not the declared value excess profits tax) may be allowed as determined in accordance with recognized accounting practice.

d. Accounting, legal, clerical and other expenses in connection with the discontinuance and termination of the contract and subcontracts thereto, other than in connection with litigation of claims against the Government, may be allowed.

e. A provision for costs of designing and producing special tooling (including but not limited to costs of special tooling of the type of jigs, dies, fixtures, patterns and similar items) may be allowed to the extent that the Contracting Officer finds that such costs, in accordance with recognized accounting practices, are properly allocable to the contract.

f. Wartime obsolescence "may be allowed to the extent that the Contracting Officer finds that the facility in question was acquired for the performance of the contract, or the contract and other contracts, and the loss in useful value has in fact clearly occurred and is properly allocable to the terminated contract and provided the contractor agrees to protect and does protect the interest of the Government in such cases by transfer of title to the Government, by stand-by agreement or any other manner judged to be appropriate by the Contracting Officer."

In no event shall the aggregate of amounts allowed for special tooling and wartime obsolescence "be greater than the contract price payable, if the contract had been completed, less the amount of all costs which the Contracting Officer estimates would have been required to perform the contract completely, excluding these two special allowances."

Items excluded as allowable items of cost include:

a. Losses on other contracts, losses from sales or exchanges of capital assets, legal and accounting fees in connection with reorganizations, anti-trust litigation and prosecution of Federal income-tax claims or other claims against the Government, losses on investments, provision for contingencies, fines and penalties arising from failure to perform Government contracts.

b. The expense of conversion of the contractor's facilities to uses other than performance of the contract.

c. Expenses found by the Contracting Officer to be due to the negligence or willful failure of contractor to discontinue with reasonable promptness the incurring of expenses after the effective date of the discontinuance notice.

d. Costs found by the Contracting Officer to have been incurred in respect to facilities, materials or services purchased, or work done in excess of the reasonable quantitative requirements of the contract after fair allowance for spoilage in manufacturing.

The Need for Contractors to Prepare for Termination through Their Accounting Records

Through the publication of the proposed termination audit manual, contractors will be apprised of the nature of the accounting problems arising out of the termination of fixed-price supply contracts before completion. To anticipate the probable necessities of such terminations, contractors should, in the light of this information, accumulate their accounting data accordingly. Speed of reimbursement and equity of settlement will be greatly facilitated if the accounting information required for a negotiated settlement is easily obtainable. The demands of "V" Day will produce a monumental problem with which the War Department auditors must cope. The War Department is taking the long view in preparing now for contract terminations at the end of the war. If the contractors match this with their readiness in an accounting way, the desire for speedy, equitable and orderly settlement of termination claims will become an actuality.

DISCUSSION

Chairman Hawk: I am asked to make this announcement. Any of you who might have occasion to leave early will be interested, I am sure, in the proceedings of this meeting, which are to be published by the University and will be sent gratis to all of those who have registered. So, if you haven't registered, please do so upon leaving. There is no charge for registration.

I am sure all of you have a lot of questions which have occurred to you during these interesting remarks by the speakers. The meeting so far has been up here on the platform. Now it is yours. So, who has the first question? You can direct your question to an individual speaker or let them decide among themselves who would like to answer it. In order to facilitate the questions, we are going to eliminate the calling out of your name and company. So please just stand up and give your questions.

Question: Mr. Blough, as you were going along I was making notes, and if you don't mind my standing until they are disposed of, I would like to do so.

Concerning the matter of renegotiation, there was a meeting held in Pittsburgh. To your knowledge, were the four Boards appointed to handle renegotiations present at the meeting?

MR. BLOUGH: Five.

QUESTION: I was concerned whether there was going to be printed matter issued on rulings?

MR. BLOUGH: There will be printed matter released, as a result of that meeting, to all persons in renegotiation work. So far as I know, it will not go to the general public. It was purely a training meeting to draw all those involved closer together and to indoctrinate them with the policies of the Boards.

QUESTION: I just learned this the other day. Out of that discussion in Pittsburgh there came this principle. I know it to be a fact that the Navy has had contracts out, for, I should say, maybe the last year or two, which provided for a 90 per cent payment on the contract upon delivery of the equipment, and the remaining 10 per cent was withheld, sometimes as long as a year thereafter, probably in some kind of a guaranteed fund, which they retained. Now they told me that in view of the fact that the contract provided for those terms—that is, 90 per cent down upon the delivery of the equipment and 10 per cent, let's say, a year thereafter—and since there was no dispute between the supplier of the equipment and the Navy Department, the fact that the entire 100 per cent was not paid by April 28, 1942, would throw the entire amount of that particular sale or contract into the renegotiable group.

MR. BLOUGH: That is right.

QUESTION: In other words, the principle revolves around this question?

MR. BLOUGH: The contract had not been completed and paid for prior to April 28.

QUESTION: The point they made, I think, was that there was no dispute between the two parties as to the price or quality of the equipment, or anything of that sort. Now in the joint statement that was issued by the Army and the Navy and the Maritime Commission and the Treasury Department, under March 31, 1943, there is one paragraph, entitled III-J-PAB-1, concerning the matter of subcontractors. By way of illustration, they show in that paragraph a case wherein 60 per cent of the subcontractor's business was subject to renegotiation, and they suggest from that that only 60 per cent of the material supplied to that subcontractor is subject to renegotiation by the prime contractor. Now I received a letter from Mr. Rockey just the other day—he happens to be chairman of the Navy Department Price Adjustment Board—in which he elucidated that principle, and stated that it might be possible, for example, that a subcontractor may have had only 10 per cent of volume subject to renegotiation. Therefore, the prime contractor who supplies that contract has only 10 per cent of his business with that subcontractor subject to renegotiation.

Now here is what comes out of that application—I will try to illustrate it with this example: Let us suppose that a subcontractor did 40 per cent of his business prior to April 28, 1942. I mean by that that only 40 per cent was delivered and paid for prior to April 28, 1942, that the remaining 60 per cent of his business done in the year 1942 was evenly distributed—that is, 30 per cent of it (50 per cent of the remaining 60 per cent of business) was subject to renegotiation and the other 30 per cent was not. In other words, in the entire year's business, you have this breakdown: You have 40 per cent delivered and paid for prior to April 28, 30 per cent is renegotiable, and the other 30 per cent is not renegotiable. Now, in the application of this principle of the proportion of renegotiable to non-renegotiable contracts of this subcontractor in the case I cited, would 70 per cent be considered as renegotiable or would it be a 50-50 split?

MR. BLOUGH: I would like to say that we all regret having put that 60 per cent illustration into the joint statement, because it is only a last resort, where you cannot in any more equitable or clear-cut way determine the end use of your product. Under certain circumstances we recognize that when you sell to an industry you don't know the end use. What we had in mind there was not the sale to an individual contractor, because there you usually ascertain from him the proportionate part of the end use of your material that went to the government. I should say that, in general, on the assumption that your goods are used just as much in the non-renegotiable as in the renegotiable business, the presumption would be that you would be subject to renegotiation on that part of your sales to that contractor that had not been fully paid for prior to April 28. Regardless of what part of the contractor's sales were renegotiable, your renegotiable business would be that part of your sales that had not been delivered and fully paid for prior to April 28, computed on the basis of the proportion of your material that he uses in government as against non-government business. It is only a device to be used when we can't find a better way. If he is using your material entirely for war work, and is not using it in the jobs that he is doing for his non-renegotiable business, that percentage would mean nothing so far as you are concerned. You would be subject to renegotiation on all your sales to him after April 28. If, on the other hand, the material you sold to him was not used in government business, you wouldn't be renegotiable on any of it, regardless of how much of his was renegotiable. But where you can't get any better basis and where your goods are used indiscriminately in his industry as between renegotiable and non-renegotiable business, the assumption is that it would be fair to divide your sales to him on the basis of the same proportion that his renegotiable business bears to his non-renegotiable business.

QUESTION: I would interpret that to mean that it is a question of renegotiable and non-renegotiable after April?

MR. BLOUGH: No, on the aggregate of your business, ending with these five government departments, not paid for until after April 28. If you had not been paid for it prior to April 28, and it is the type of material that would be subject to renegotiation to you, it would be subject to renegotiation even though your customer had completed his sale and been paid for it. I wouldn't quite know how that would happen, but it might! On the other hand, if he had completed his contract with you prior to April 28 by receipt of and payment for all the material he used throughout the whole year, you would not be subject to renegotiation on such sales even though he was renegotiable on all of the business on which he used the materials he got from you.

QUESTION: Now my next question is: Do you anticipate any changes in the law?

MR. BLOUGH: Yes, there are changes in the law that are anticipated. The Price Adjustment Boards have recommended two changes: one, that companies having aggregate sales to these five departments of less than $500,000 in any fiscal year be exempt from renegotiation in that year; two, that instead of companies being given the opportunity of filing a statement with respect to their business with the Price Adjustment Boards in order to start the statute of limitations running, they shall be compelled to file.

QUESTION: Do you know if they contemplate a change to include the Defense Plant Corporation business as renegotiable?

MR. BLOUGH: Recommendations have been made that the Defense Plant Corporation business be included in renegotiation. Committees of Congress have recommended that it be included, but neither the War Department nor the Navy or any of the other departments have taken any position on it. They believe that it is a problem to be settled by the Defense Plant Corporation and Congress.

QUESTION: Has the Defense Plant Corporation attempted to advance that idea so as to get into the renegotiation picture?

MR. BLOUGH: I cannot say that it has. I, personally, have recommended to the Committee of Congress that it be included. It makes no sense to me that one who is a manufacturer of a tool, for example, which he sells to a manufacturer of a war product, destined for the War Department, is subject to renegotiation on that sale, but, if he sells his tool directly to the government in the form of the Defense Plant Corporation, the sale is not renegotiable. However, that is the way it is.

QUESTION: Could it be made retroactive?

MR. BLOUGH: I can't say. Congress has that power.

QUESTION: The next question I have is: Is any provision being made for handling the problems of the destruction of the future market? By way of illustration, I will cite you this example. I represent a number of machine-tool builders, and every one of them is very much concerned about the market for machine tools after this war is over. The president of one company made the statement to me that he couldn't see any machine-tool business for a period of five years after the cessation of hostilities. That would be a serious thing for the machine-tool business.

MR. BLOUGH: I suppose you are thoroughly familiar with the article in the May 10th issue of *Time*?

QUESTION: I didn't see the May 10th issue of *Time*, but I did see a very enlightening article in the *Wall Street Journal*.

MR. BLOUGH: The article in *Time* quotes one good machine-tool manufacturer who doesn't subscribe to the view you just mentioned.

Let's consider the machine-tool industry, in which you are principally interested. In certain phases of machine-tool manufacture there is no question in my mind but that the manufacturer is glutting the market for himself in the future; for example, a machine-tool builder who is manufacturing a type of machine-tool which is adaptable to all kinds of machining business, and which is not of a special-purpose nature, will suffer after the war because he and his competitors have produced from 4 to 10 times as many machines in 1940, 1941, and 1942 as they did during their base period, we will say from 1936 to 1939, inclusive. They have probably turned out more machines than industry would have ordered in a longer period of time had it not been for the war. Assuming that those machines are not used up in the production of war business, which may be reasonably presumed inasmuch as they are machines that have a normal life of 10 to 15 years, they will be available for sale to those who want them after the war, who would otherwise buy new ones. It is clear to everybody that there will be a period of time beginning soon when that type of machine-tool manufacturer is likely to have a considerable lull in his market.

On the other hand, there are other machine-tool manufacturers who will not be faced with that problem. They are manufacturing machine-tools of special type for war purposes, and their increased production during the war will have no effect whatsoever on their peacetime production. There are other cases in between.

The Price Adjustment Boards are attempting to study the situation in these various machine-tool fields. The machine-tool builders have argued as though every machine-tool manufacturer were in the same situation and that all were in bad shape. We are trying to distinguish among them. We recognize that some have a problem, but we know some do not have it to such a great degree, and some do not have it at all.

We are trying to take this factor into consideration in determining the fairness of the profit that should be allowed in the individual case. Where the problem exists to an acute extent, there is no question but that such a company is entitled to higher profits than a company which is not faced with it. However, we do not consider such a situation to be a reason why a company should be allowed to make highly excessive profits.

Let us consider this example: Assume that a machine-tool manufacturer has been making a margin of from 15 to 20 per cent during the normal period in the industry, I should say its peak period, because 1936 to 1939 was, in the machine-tool industry, virtually a peak period. Now, in the war period it has six or seven times its 1936-1939 volume of business, and is earning a margin of from 35 to 40 per cent. It is clear to us that companies in that situation, even if they do have to close up for three or four years after the war, will have made considerably more profit than they are entitled to on the basis of what they would ordinarily be turning out under peacetime conditions.

I think that, in all due justice to the rest of the gentlemen here, I may have spent more time on a particular field than I should have, although I recognize that this problem in the machine-tool industry is applicable in certain other industries. The machine-tool business is not alone in having that particular problem.

QUESTION: Mr. Chairman, these recent publications mention over-all settlement of cancellation costs similar to the over-all renegotiation of contracts. I wonder if any of the speakers would comment on that point.

MAJOR TAYLOR: You mean on the question of all contracts being settled at one time?

QUESTION: The question of all contracts of a particular company, so that its claims would not be disputed in the future, knowing there was going to be the over-all settlement to follow.

MAJOR TAYLOR: It is obvious that a contracting officer is not going to take the contracts piecemeal, if they are all being terminated at one time. Provision certainly is made for dealing with a contractor on all the contracts he has with one agency of the United States Government.

Cooperation is being worked out between the Army and Navy so that it may be possible to settle with the contractor for all terminated contracts. You realize, of course, that the experiences gained in the current terminations, and there are far more terminations than most people realize, will help us at the other end of the road. I certainly anticipate that we will have an over-all settlement with the contractor on a negotiated basis. Does that answer your question?

QUESTION: I understood from your discussion that, in the negotiated settlement of a claim, when you had arrived at a negotiated rate of profit, the profit is to be calculated on the total costs involved in that contract to the date of cancellation.

MAJOR TAYLOR: That is right.

QUESTION: I got the impression from Mr. Olive that the general public had the feeling that perhaps that rate of profit would be on the entire amount of the contract rather than on the processed and completed portion, and I wanted to have that point brought out.

MAJOR TAYLOR: The profit would not be computed on the entire amount of the contract. We would, if we could, determine the cost of the uncompleted portion of the contract and apply the rate of profit thereto, thereby complying specifically with the contract termination article, which says that the contractor shall be paid the cost of his *uncompleted portion* plus a profit.

QUESTION: Major, there is one other question. The procedure recently released indicates that the same principles will apply in the sub-contractor's claims as will in the prime contractor's claims. The contractor's contract has a very definite and specific cancellation provision. The sub-contractor in many cases has a purchase order, or has no cancellation article, and under such a cancellation the subcontractor has certain rights under common law. Under common law, I believe a subcontractor has a right to sue and recover 100 per cent of the profit he might have realized, eliminating speculation. Under those circumstances, can the standard procedure used in the case of the prime contractor apply to the sub?

MAJOR TAYLOR: That is going to be a troublesome problem. It is being recognized by the attorneys in the War Department, and I expect that they will arrive at some satisfactory answer.

QUESTION: My question is in regard to construction-materials negotiation. In determining the amount of non-negotiable sales, you mentioned that you included the sales to public utilities and railroads. Do you also include sales to private corporations, such as ship-building yards, ammunition factories, airfield buildings, and others in the same category, or do you include those as indirect government?

MR. BLOUGH: Yes, when you sell to a shipyard—now let's get a distinction here—if you sell to a shipyard anything which enters into the vessel.

QUESTION: It does not enter into the vessel. I am talking about plant-construction materials and yard construction.

MR. BLOUGH: You contract something which becomes a part of real estate?

QUESTION: Yes.

MR. BLOUGH: And it is not paid for ultimately by the government—it is paid for by the shipyard, a separate corporation?

QUESTION: Yes.

MR. BLOUGH: It is not subject to renegotiation.

QUESTION: May I ask, Mr. Blough, am I correct in assuming that Price Adjustment Boards take cognizance of a condition where a contractor has many contracts, some of which involve labor and material and others involve only labor? Do they take cognizance of the fact that a contractor has a higher percentage of profit on his contracts involving only labor than those involving labor and materials?

MR. BLOUGH: That is right.

QUESTION: How may that be best presented in the presentation of the contractor's reports?

MR. BLOUGH: One of the best things for a contractor to do in order to bring out a situation of that kind is to show, if it is possible for him to do it without unreasonable effort: first, the amount of parts and assemblies which he buys from others; second, the amount of raw material which he buys and processes; third, the amount of his labor; and fourth, the amount of his overhead. In this way, his costs are broken down into those four categories, and if he has certain commodities on which he has a different proportion than on others, then it will be well to separate those, if he can, so that different consideration may be given to the product that is in the one category than to the product in the other category.

QUESTION: For instance, if you have $10 million worth of renegotiable contracts and $3 million of them involve labor only—the material having been supplied by a government agency—just a statement to that effect is about all you can do?

MR. BLOUGH: I see what you mean. Yes, when the prime contractor is furnishing you materials upon which you work and charge him for your services, or when you take a contract to do a particular job for him, or you receive materials from the government and you process them and turn them back. Is that what you have in mind? Yes, a simple statement with respect to that should be made.

In talking about ratios and the extent to which you are entitled to profit on a project of that kind, I should like to point out that if you included the full value of all of the materials and the labor as part of your costs, but did not furnish the materials or take any risks on the materials, you would not be entitled to as high a profit as would the person who furnishes both the materials and the labor. On the other hand, if you are relating it, as you likely would, just to the labor element without including any costs for materials you would be entitled to a higher ratio of profit, other things being equal, than the company that furnished both the materials and labor and had them both in its costs. That is one reason we can't develop any kind of a formula which will fit varying cases. It is why I said a bit ago that it is a matter of judgment.

QUESTION: Mr. Blough, could consideration be given to individual losses? In one case we might have a policy adjustment where future services are required which are not provided for, and another case where curtailment in schedule is forced upon a company.

MR. BLOUGH: Those are difficult questions. So far as actually allowing any charge for those things as a part of the cost, it may not be done. In the first place, our accounting is pretty largely confined to the acceptance of the type of allowances and deductions that are allowed for income tax purposes and the proportions that are allocable to the renegotiable business. Now the kind of thing you are talking about isn't allowable for income tax purposes. One reason why it isn't is because it isn't possible to determine it with reasonable accuracy at the time.

QUESTION: Would the principle of carry-back be applicable in the future?

MR. BLOUGH: Carry-back future losses against profits? No. But what I was going to say was that, while we cannot allow a fixed amount as a specific deduction, where a contractor has that element present, it is an element of risk in his business which is greater than that of the company that does not have it present, and one of the factors that must be rewarded by profits are risks that are being taken. So, if a reasonable showing of the existence of that kind of a risk is made, it will be given consideration in the rate of profit allowed, though it is not allowed as a specific deduction in arriving at profit.

QUESTION: I have a question for Mr. Blough. If the subcontract provides for renegotiation, does the general renegotiation for subcontract by the government eliminate the necessity of the subcontractor continuing these renegotiations with the prime contractor?

MR. BLOUGH: I can't answer that question in the absence of the specific contract you have. If this contract which you mention between the subcontractor and the prime contractor contains the renegotiation clause that is placed there at the request of the Secretary of War or the Secretary of the Navy, that clause does not call for renegotiation between the subcontractor and the prime contractor. This clause calls for renegotiation, but it is the renegotiation that will take place between the subcontractor and the government and does not contemplate a renegotiation between the prime contractor and the subcontractor. Now if you have some other clause which you inserted in order to give your prime contractor the benefit of any savings that you may make, that is outside the field entirely, and while it might complicate the issue when you came to the renegotiation with the government, it would basically have nothing to do with the renegotiation between the government and the subcontractor, nor would our renegotiation have anything to do with the relationship between the prime contractor and the subcontractor. They would be independent of each other. Presumably, the one would have to be completed before the other one could be completed. I should think you would get into considerable difficulty if you had that kind of a contract, but so far I have not run into many of that kind. Most of them are the standard type of renegotiation clause which is required by the War and Navy Departments.

QUESTION: What effect will the depreciation of inventory prices have on the termination of the contract? Will the prices be as of the date of the termination, or will depreciation be given consideration?

MAJOR TAYLOR: Of course, you are talking factual matters now, which are more or less up to the determination of the contracting officer. He has utmost freedom in determining the values of the inventory, what salvage there is.

QUESTION: Wouldn't the market have an effect?

MAJOR TAYLOR: That is for the contracting officer to decide. I can't answer that question. It is a factual matter. It is something for him to decide when he gets down to the individual case, and he can decide as he pleases in a negotiated settlement. Of course, you realize the contractor doesn't have to accept the settlement he offers.

QUESTION: I wonder, Mr. Blough, if you have determined and established a definition of real estate? In examining different state laws, we run into a lot of different interpretations of what is included in real estate. Since that has such a large bearing on the segregation of renegotiable and non-renegotiable sales, I wonder if you could establish a policy on that?

MR. BLOUGH: No, we have never attempted to define real estate. There are differences in the state laws, it is true. I think we have, generally, gone on the assumption that it is land, buildings, other things attached to the land, or equipment, machinery and so forth, which, when installed in the building, could not be taken out without defacement or destruction of the building. Otherwise, it is considered to be personal property. That is a rather rough determination, but it is the one which, generally, is used.

QUESTION: Mr. Blough, what is the penalty for the unwillingness of a contractor to cooperate in a renegotiation?

MR. BLOUGH: I tried to explain that in my original talk. So far as penalty is concerned, there is no penalty that I know of. Ultimately, the matter will get up to the Under Secretary of War, or the Under Secretary of the Navy, or to the Chairman of the Maritime Commission, or the head of the department that has charge of the renegotiation. I assume everybody here understands that the department that is assigned the job of renegotiating is the department that has the bulk of the business with the company, and that it renegotiates for all departments and gives clearance for all departments.

Now the head of the department that has been assigned the job of conducting the renegotiation will ultimately get the case and make a finding. He is charged under the statute to make a finding as to whether or not there are excessive profits. If he finds there are, he is required to make that finding. He would then proceed to work out some satisfactory plan of recovery or withholding. The matter may never go that far.

I happen to know of a particular situation. This is not common practice, but it is certainly within the power of the contracting officer. A particular company has not been able to reach an agreement with the Price Adjustment Board. The contracting officer who has been letting the contracts to that company is now faced with the problem of letting a new contract. Their old contracts are practically finished. He told the company last week, "Your machines belong to us. You are in this business by virtue of the War Department. Now you make up your mind whether you want to stay in this business or not."

QUESTION: Assuming that the findings of renegotiation proceedings finally got up to the Under Secretary, is there anything in the set-up that would permit some government agency, perhaps the controller general's office, to reopen a case two or three years from now?

MR. BLOUGH: The statute specifically provides that the renegotiation is final. I don't know just how final. I think that in case there should be a unilateral determination, a subsequent renegotiation agreement would close it also, although I am not sure about that. I do know that, if you enter into an agreement which is signed by the Under Secretary, the statute specifically closes the door to any reopening from the standpoint of determination of excessive profits.

CHAIRMAN HAWK: We have a gentleman here this morning who holds an important committee post in the American Institute of Accountants. I would like to call on Victor Stempf, who is Chairman of the Committee on Profit Limitations of the American Institute, to say something on this.

MR. VICTOR STEMPF: I hesitated to take the floor for fear of prolonging the proceedings. Nevertheless, I think that we ought to bring into the open the fact that there still remains in industry a mute but none-the-less cynical distrust and indignation concerning the administration of renegotiations. Frankly, I, personally, am still not wholly convinced that that view is not to some degree justified. I have in mind three or four points. First, the continued reference to these rare and rather scandalous cases which, to the man on the street, impugn the integrity, good faith, and perhaps patriotism of industry generally, which all of us in the room know, of course, to be utterly untrue. Secondly, in industry, I think the belief is quite prevalent that the continued emphasis upon the positive and negative factors of contribution to the war effort are very largely eye-wash. The Truman Committee Report indicates that of the average of cases there is perhaps a maximum leeway of 2 per cent between the most liberal treatment and the most unliberal treatment of cases, and that to me seems to be a definitely inadequate margin to measure the difference between a company which makes a real contribution to the war effort and one which is utterly inefficient.

I think that the success or failure of renegotiation depends upon the complete frankness of disclosure of the operation of the Price Adjustment Boards, that they must stimulate cooperation, willing cooperation on the part of industry, and that they can best do so by finding some means of publishing, by industry, and by anonymous cases within industries, the relationship of the profits to readjusted sales, which will dispel what, I hope, is a misapprehension as to the narrow margin allowed the good company and the bad company.

I think that in respect of the proposed amendments, it would be far more equitable to provide an exclusion to all companies subject to renegotiation of the first $500,000, rather than to make it $500,000 as an arbitrary starting point. If the company that is doing $499,000 of contracts is to be excluded from renegotiation, it seems to be equally fair that the company that is doing $10,000,000 of such business should have the first $500,000 excluded.

I think that the casting aside of provisions for post-war reconversion, on the meager plea that they are so indeterminate as to make consideration of them impossible, is just as fantastic as the old story of the ostrich sticking its head in the sand. It seems to me we must find some way of measuring these post-war reconversion costs, and that they should be allowed. If it can't be done otherwise, it must be done by funded reserves, which will be subject to readjustment after the war is over. Your carry-back and carry-forward provisions of the Tax Law do not serve the purpose adequately, and I think that the future economy, the future stability of our business, depends very largely upon the provisions which are now made regarding these post-war reconversion costs. They can't be brushed aside as lightly as they have been, both tax-wise and from the standpoint of reconversion.

CHAIRMAN HAWK: Thank you very much, Mr. Stempf. I take it that your remarks are more or less a resume of the recommendations of your committee, and I rather believe that Mr. Blough would like, perhaps, to have a rebuttal.

MR. BLOUGH: In the first place, I should like to say that I think Mr. Stempf has misinterpreted somewhat the Truman Committee's statement with respect to the Navy Department. In the second place, I think the Truman Committee drew too broad a conclusion on the basis of a relatively small number of cases which it examined. I agree with you that, if there were any such thing as a margin of difference between the good and the bad producer of anywhere close to 2 per cent, it would be wholly inadequate as a measure of a good job versus a bad job. If a poor producer were granted 9 per cent, would a very good producer be adequately compensated by 11 per cent? I wouldn't argue on that for a minute, and neither would the Price Adjustment Board.

With respect to this reconversion reserve, I do not disagree much with what Mr. Stempf has said, but I have been wholly at a loss to know how to suggest going about an equitable way of allowing provision for it. In the first place, if the Price Adjustment Boards make an allowance for post-war reconversion expense in renegotiation, they will have to make an allowance of 4 to 5 times as much as the company has to have if it is going to get anything out of it tax-wise, because it is not allowed for tax purposes.

In the second place, I think that the measurability of the amount of a post-war requirement is a lot less simple than Mr. Stempf has indicated. He may not have intended to give that impression. There are a lot of companies that have gone through rather extensive conversions to the war effort, and they can show their conversion costs, which, incidentally, have all been paid for and charged against government contracts. These costs have been allowed in renegotiation and as tax deductions, and the companies will never reconvert after the war. They have now converted their plants to modern businesses, whereas, before, they had obsolete plants, and they have done it at the government expense. The measure of their post-war reconversion losses is not related whatsoever to the amount of their conversion cost in the first place.

There are some companies that undoubtedly are going to have great reconversion expenses after the war, but so are there a lot of companies going to have a lot of reconversion expense who didn't do any war business. Industry has progressed during the period of the war, and after the war is over, whether a man was in government business or whether he wasn't, and particularly if his business was shut up during the war, he is going to have tremendous post-war reconversion expenses.

To me, it is a question as to whether or not the company that was fortunate enough to have war contracts should expect the government to pay its expenses of reconversion to some other type of business after the war, which they would have had to go through with anyway, while their competitors who didn't succeed in getting war contracts are going to suffer anyway. I think there are two sides to the question, and I don't want anybody to go out of here thinking that I am not in favor of doing something about providing for those companies that definitely have a post-war reconversion problem because they took war contracts, for I think they should be provided for. But those companies that would have had that problem anyway, and those companies that won't have it because they have been able to modernize and develop a fine working plant on war business for normal business after the war, should certainly not be allowed anything for reconversion as a charge on war contracts.

There is one other point I want to mention—the $500,000 exemption. I have no very strong feeling about that, and I am frank to say that I think there is a lot of merit in the suggestion that the whole $500,000 be exempt. The Departments were interested in this proposal as a means of reducing the administrative burden. There are a tremendous number of small companies, companies ranging from $100,000 to $500,000 of business, that, even though they make rather high profits over-all, aren't going to stack up to too great an amount, particularly after income taxes, and the Departments felt that, while undoubtedly there would be some companies having between $100,000 and $500,000 of business that would make excessive and possibly exorbitant and/or unconscionable profits, still the administrative job was such that it would be desirable to limit renegotiation by eliminating concerns whose war business was less than $500,000 instead of $100,000.

Now the policy was fixed when the $100,000 was exempted. The first $100,000 of renegotiable business was not exempted—it was just companies with less than $100,000—and so the $500,000 exemption was applied in the same way. I shouldn't want to argue the equity of the case. I think that there may be some merit in the proposal to exempt the first $500,000. On the other hand, I think that a lot of the companies with several million dollars of business would a lot rather put in the whole thing than to go through the determination as to whether the first $500,000 which should be exempted should be that part of their business on which they made 7 per cent, or that part on which they made 32 per cent. This determination has some point when you are trying to decide which $500,000 you are going to exempt in a company that has renegotiable business.

MR. STEMPF: It seems to me, Mr. Blough, that on the $500,000 exemption, and particularly where it provides over-all renegotiation, there would be no question as to the 7 per cent or 32 per cent portion of business that would be excluded, because it is largely treated as a unit.

On the point of the four or five times the allowance that would have to be made in renegotiation to give corporations any benefit for allowance for post-war reconversion, obviously there first must be an amendment of the Internal Revenue Code. I think that, as a matter of policy, the Renegotiation Board could recognize such provisions, and I think that for the protection and reassurance of industry it would be far better to specifically make provision for their recognition in the Renegotiation Act itself.

The Truman Committee gave the proper reply to your arguments concerning those businesses that did and did not have war business; it said something to the effect that recognizing that certain businesses may have been put out of business during this war period, it doesn't help either the country or industry to also put out of business those companies that did do war business.

I think that you are absolutely right that there is a difference in the amount of post-war reconversion needed by varying industries. I think, for example, that in textile and rubber industries there will not be nearly the post-war reconversion costs there will be in the automotive plants in getting back to production of pleasure cars and trucks, and I believe that in each industry there is a possibility of arriving at engineering estimates of what those costs are going to be. I think that if the problem were approached from the standpoint of funded reserves, on the basis of scientific estimates of what would be required for reconversion purposes, with the provision that that part of the reserve which is not used for post-war reconversion shall revert to the Treasury, it would afford a relatively simple principle of solution to that problem.

MR. BLOUGH: I should like to say that I think Price Adjustment Boards, without any question, would follow the Income Tax Law if the Income Tax Law made a provision for post-war reconversion reserves. As a matter of fact, I am not sure but that they would be required to go along with it under the existing law. Furthermore, that would also provide the machinery for policing something that will take place later on, which is a responsibility that the Price Adjustment Boards have not wanted. This is at least one governmental organization that doesn't want to self-perpetuate itself. Every man that I know of in this renegotiation job is just hoping that the time will come very soon when he can go back to what he was doing before, and the idea of making this a part of our regular government by developing a machinery for policing something for years after the war is repugnant to those who are in it. But if in the Income Tax Law there were some method worked out whereby it could be handled and policed in the future, nobody in renegotiation would object to it.

QUESTION: The Major indicated, and the procedure indicates, that the subcontract is the prime responsibility of the prime contractor. Mr. Graham has a motto: Where are you to get the auditors? There is an article in *Business Week*, dated May 15, which came out after the release of that treatise on procedure, which brings out that the War Department is considering accepting direct claims from subcontractors, sub-subcontractors, and so on down the line, and cutting the red tape of going through the prime contractors. This is later than the treatise that you referred to, and yet it is entirely contradictory, and I was interested in knowing if there is some consideration being given to following the other line rather than this?

MAJOR TAYLOR: The prime contractor has the responsibility of making sure that the claim to the subcontractor is right. He cannot avoid it. There would be difficulty in dealing with the subcontractor direct, especially when there might be some question of the over-all contractual limit.

CHAIRMAN HAWK: I think that, in view of the lateness of the hour and in fairness to the speakers and those who have prior commitments, we should conclude this meeting. In conclusion, I want to express appreciation to the speakers for the papers that they have presented, and for their courtesy in answering all these sundry and many questions. It has been a very interesting meeting, and I hope you have all enjoyed it as much as I have.

CONFERENCE ROSTER

ANDREOTTA, C. J., The American Rolling Mill Co., Middletown, Ohio
AREND, C. A., The American Rolling Mill Co., Middletown, Ohio
ARMSTRONG, WM. Y., The American Appraisal Co., Cleveland, Ohio
ASSION, LEE P., The Buckeye Steel Castings Co., Columbus, Ohio
AUSENHEIMER, WALTER E., The McBee Co., Athens, Ohio
AVERY, LEONARD, Keller, Kerschner, Martin & Clinger, Columbus, Ohio

BALDWIN, JESSE H., C.P.A., Columbus, Ohio
BARRETT, S.H., Columbus Bolt Works Co., Columbus, Ohio
BARTLETT, LT. CMDR. M. D., United States Navy, Cincinnati, Ohio
BASH, CAPT. JOHN M., War Dept., Office of Division Engineer, Columbus, Ohio
BATORY, SAMUEL, The Ohio Fuel Gas Co., Columbus, Ohio
BATTELLE, GORDON S., Battelle & Battelle, Dayton, Ohio
BATTELLE, L. G., Battelle & Battelle, Dayton, Ohio
BEARMORE, (MISS) GENE C., Northern Ohio Institute, Cleveland, Ohio
BECK, RICHARD R., Owens-Illinois Glass Co., Toledo, Ohio
BECKERT, RALPH F., Associate Professor of Accounting, Ohio University, Athens, Ohio
BELT, WILLIAM A., Ohio State Department of Taxation, Columbus, Ohio
BENDER, S. M., Libbey Glass Co., Toledo, Ohio
BENNETT, ARTHUR B., Aeronca Aircraft Corporation, Middletown, Ohio
BENNETT, W. J., The Buckeye Steel Casting Co., Columbus, Ohio
BENOY, CLYDE L., Motorists Mutual Insurance Co., Columbus, Ohio
BETSCH, W. D., The Ohio Fuel Gas Co., Columbus, Ohio
BLACK, DALE W., Cleveland, Ohio
BLACK, H. B., Columbus Bolt Works Co., Columbus, Ohio
BLACKBURN, S. C., Armco Zanesville, Zanesville, Ohio
BLAIR, V. P., Inland Mfg. Div., General Motors Corp., Dayton, Ohio
BLOUGH, CARMEN G., War Production Board, Washington, D. C.
BOLAND, FRANK A., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
BOLAND, J. R., Washington Breweries, Inc., Columbus, Ohio
BOLON, W. J., Parker & Bolon, Columbus, Ohio
BOMELI, EDWIN, Keller, Kirschner, Martin & Clinger, Columbus, Ohio
BRACKEN, (MISS) REBBIE, Department of Taxation, State of Ohio, Columbus, Ohio
BRAHAM, JOE J., Inland Mfg. Div., General Motors Corp., Dayton, Ohio
BROWN, HOBART M., The Toledo Steel Products Co., Toledo, Ohio
BROWN, JOHN E., United States War Department, Office of Division Engineer, Columbus, Ohio
BRUNGS, E. LORIN, Keller, Kirschner, Martin & Clinger, Columbus, Ohio
BUCCALO, JAMES N., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
BURKHALTER, K. E., Libbey Glass Co., Toledo, Ohio

BURNHAM, W. C., Assistant Professor of Accounting, Ohio State University, Columbus, Ohio

CAMARINOS, T. E., Seneca Hotel, Columbus, Ohio
CAMPBELL, LORNE P., United States War Department, Cleveland Heights, Ohio
CARIENS, DAVID S., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
CARIS, J. C., The Cussins & Fearn Co., Columbus, Ohio
CHASE, W. F., Ohio Fuel Gas Co., Columbus, Ohio
CHESNEY, ARTHUR C., JR., Inland Manufacturing Div., General Motors Corp., Dayton, Ohio
CHRISTEN, ALBERT, Cotton & Esken, Louisville, Ky.
CHURCHILL, ROLAND, O.R.D. Price Adjustment Section, Columbus, Ohio
CLARK, JAMES C., Westinghouse Electric & Manufacturing Co., Pittsburgh, Pa.
CLINGER, RALPH H., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
COOPER, T. KENNETH, Owens-Illinois Glass Co., Toledo, Ohio
COX, ROSS E., The Ohio Public Service Co., Warren, Ohio
CRANSTON, H. M., Owens-Corning Fiberglas Corp., Toledo, Ohio
CRITES, DEAN, Ohio Department of Taxation, Columbus, Ohio
CURL, JOHN W., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
CUTHBERTSON, H. W., Arnold, Hawk & Cuthbertson, Dayton, Ohio
CURTIS, RAMEY S., State of Ohio, Department of Taxation, Columbus, Ohio

DAVIS, L. W., The Ohio Fuel Gas Co., Columbus, Ohio
DAVIS, NORMA A., The Lattimer-Stevens Company, Columbus, Ohio
DAWSON, CARL H., National Advisory Committee for Aeronautics, Cleveland, Ohio
DEERING, JOHN T., Arthur Young & Co., New York, N. Y.
DICKERSON, T. M., Department of Accounting, Western Reserve University, Cleveland, Ohio
DICKERSON, W. A., Associate Professor of Accounting, Ohio State University, Columbus, Ohio
DOHR, JAMES L., Columbia University, New York, N. Y.
DONALDSON, E. F., Associate Professor of Business Organization, Ohio State University, Columbus, Ohio
DUNDON, ROBERT T., Columbus Stove Co., Columbus, Ohio

ECKLEBERRY, GEO. W., Ohio State University, Columbus, Ohio
EIDE, RANDOLPH, The Ohio Bell Telephone Co., Cleveland, Ohio
ELLIS, WM. M., Osborne, Ellis & Co., Charleston, W. Va.
ENGELHARDT, C. A., Owens-Illinois Glass Co., Toledo, Ohio
EYERMAN, R. F., Surface Combustion, Columbus, Ohio

FENNER, J. B., Electric Auto-Lite Co., Toledo, Ohio
FENZEL, W. H., Associate Professor of Accounting, Ohio University, Athens, Ohio
FINDLEY, FLOYD R., International Business Machine Corp., Toledo, Ohio
FISHER, DON A., Ohio Department of Liquor Control, Columbus, Ohio
FISKE, WYMAN P., Professor of Accounting, Massachusetts Institute of Technology, Cambridge, Mass.
FLICKINGER, C. L., The Deming Co., Salem, Ohio

FLOWERS, F. O., Department of Taxation of Ohio, Columbus, Ohio
FOLK, S. G., Thew Shovel Co., Lorain, Ohio
FORSYTHE, W. GUY, Keller, Kirschner, Martin & Clinger, Columbus, Ohio
FRANKE, NORMAN, Gilmanton Salesbook Co., Cleveland, Ohio
FROWNFELTER, R. S., Warner & Swasey, Cleveland, Ohio
FRYE, MARION A., Cleveland, Ohio

GARDNER, R. M., Inland Mfg. Div., General Motors Corp., Dayton, Ohio
GATTNER, C. C., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
GAY, HOBART H., Navy Department, Cost Inspection Division, Curtiss-Wright, Columbus, Ohio
GEIS, NORWOOD C. LIEUT., U.S.N., Cincinnati, Ohio
GESELL, CLARENCE, Wall, Cassel & Groneweg, Dayton, Ohio
GETZ, HOMER C., American Rolling Mill Co., Middletown, Ohio
GILLILAND, D. C., Ernst & Ernst, Columbus, Ohio
GLASSBURN, K. W., Barman Thomas, Columbus, Ohio
GLYNN, WILLIAM, Department of Taxation of Ohio, Columbus, Ohio
GORDON, EUGENE H., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
GRAHAM, BERL G., Gano & Cherrington, Cincinnati, Ohio
GRIFFITHS, H. H., Warner & Swasey Co., Cleveland, Ohio
GRINSTEAD, W. N., The Ohio Fuel Gas Co., Columbus, Ohio
GUNZER, C. RICHARD, Commerce Clearing House, Inc., Chicago, Ill.
GUTHMAN, W. F., American Rolling Mill Co., Zanesville, Ohio

HARTING, FRANK L., Wilson & Harting, Cleveland, Ohio
HARTMAN, WARREN H., Corps of Engineering, War Department, Columbus, Ohio
HARTSEL, D. W., Navy Department, Bureau of Supply & Accounts, Columbus, Ohio
HARTZELL, DAVID, Arnold, Hawk & Cuthbertson, Dayton, Ohio
HATCH, CLAYTON D., Warner & Swasey Co., Cleveland, Ohio
HAYES, HOWARD G., Libbey-Owens-Ford, Toledo, Ohio
HAWK, J. A., Arnold, Hawk & Cuthbertson, Dayton, Ohio
HEAUME, JOHN D., Simonds, Worden, White Co., Dayton, Ohio
HECKERT, J. B., Accounting Department, Ohio State University, Columbus, Ohio
HEFFERMAN, E. N., War Department, Corps of Engineer, Columbus, Ohio
HELLRUNG, M. A., Owens-Illinois Glass Co., Toledo, Ohio
HERMAN, F. M., Anchor-Hocking Glass Corp., Lancaster, Ohio
HEUSEL, RALPH D., Associated Public Utilities Corp., Columbus, Ohio
HIPPLE, LESTER D., Sterling Tool & Production Co., Dayton, Ohio
HITE, LESTER E., Shaw Barton, Inc., Coshocton, Ohio
HITTNER, STANLEY A., C.P.A., Cincinnati, Ohio
HOCHADEL, RAYMOND J., National Electric Coil Co., Columbus, Ohio
HOFFMAN, J. MARION, Battelle & Battelle, Dayton, Ohio
HOOCK, O. M., Lennox Furnace Co., Columbus, Ohio
HOOVER, A. M., Ranco, Inc., Columbus, Ohio
HORN, DAVID G., American Rolling Mill Co., Middletown, Ohio
HOUGHTON, MINTER J., Owens-Illinois Glass Co., Toledo, Ohio

Howe, Harold W., The H. C. Godman Company, Columbus, Ohio
Huber, Ramey H., National Cash Register Company, Dayton, Ohio
Hughes, J. T., J. T. Hughes Co., Columbus, Ohio

Isenhart, Robert F., Columbia Engineering Corporation, Dayton, Ohio

Jahn, Arthur C., Arthur C. Jahn Co., Columbus, Ohio
Jencks, W. B., Department of Accounting, Ohio State University, Columbus, Ohio
Jucius, M. J., Assistant Professor of Industrial Management, Ohio State University, Columbus, Ohio

Keller, Laurence D., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
Kem, Myron O., Dayton Rubber Manufacturing Co., Dayton, Ohio
Kiel, Frederick, Jr., Owens-Corning Fiberglas Co., Toledo, Ohio
Killam, H. L., Ohio State Tax Department, Columbus, Ohio
Kinsel, Delber, Auditor of Organization Accounts, Ohio State University, Columbus, Ohio
Kline, W. G., U. S. Corps of Engineers, Columbus, Ohio
Knauff, Paul N., Ohio Leather Co., Girard, Ohio
Knox, Darrell E., Inland Mfg., Div. General Motors Corporation, Dayton, Ohio
Knupt, Jesse, The National Bank, Portsmouth, Ohio
Kohring, Carl H., Berman Thomas Co., Columbus, Ohio
Krauss, E. L., Federal Glass Co., Columbus, Ohio
Kuenhold, Robert C., Warner and Swasey Co., Cleveland, Ohio
Kuhn, C. A., Hammermill Paper Co., Erie, Pennsylvania
Kuhnle, Howard C., F. J. Heer Printing Co., Columbus, Ohio

Lambert, Kenneth E., Arnold, Hawk & Cuthbertson Co., Dayton, Ohio
Langdon, Elmore C., W. E. Langdon & Son Co., Columbus, Ohio
Langdon, W. E., W. E. Langdon & Son Co., Columbus, Ohio
Langenberg, C. L., The Ohio Fuel Gas Co., Columbus, Ohio
Lauber, Joseph S., Plaskon Division, L.O.F. Glass Co., Toledo, Ohio
Legg, M. W., The Felber Biscuit Co., Columbus, Ohio
Leis, R. O., Ernst & Ernst, Columbus, Ohio
Lohnes, G. R., The National Cash Register Co., Dayton, Ohio
Lundquist, T. I., Balcrank Incorporated, Cincinnati, Ohio
Lutz, R. H., Columbus Coated Fabric Corporation, Columbus, Ohio

Main, George G., Westinghouse Electric & Manufacturing Co., Pittsburgh, Pa.
Martz, W. R., Wright Aeronautical Corporation, Cincinnati, Ohio
Mason, Roger, Kroger Packing Company, Columbus, Ohio
McCleery, R. B., International-Stacey Corporation, Columbus, Ohio
McClintock, R. T., Anchor-Hocking Glass Corporation, Lancaster, Ohio
McGavran, Samuel B., The Ohio Fuel Gas Company, Columbus, Ohio
McLeod, S. C., National Association of Cost Accountants, New York, N. Y.
McNull, R. B., Harvard Graduate School of Business, Soldiers Field, Boston, Mass.

MENGES, PAUL, North Electric Mfg. Company, Galion, Ohio
MERTZ, B. J., Buckeye Union Casualty Company, Columbus, Ohio
MEYER, A. J., Ranco Incorporated, Columbus, Ohio
MEYER, WALTER E., Jewel Tea Co., Inc., Barrington, Illinois
MILLER, L. HOWARD, L. Howard Miller Co., Dayton, Ohio
MILLER, THOMAS G., LT., Office of Division Engineer, Columbus, Ohio
MITCHELL, C. R., Owens-Corning Fiberglas Corp., Toledo, Ohio
MONROE, M. M., Inland Manufacturing Division of G.M.C., Dayton, Ohio
MOORE, JOHN B., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
MOORE, V. J., Meaden & Moore Co., Cleveland, Ohio
MORLAN, WILSON J., The Denning Company, Salem, Ohio
MORRIS, KARL K., Morris & Hausser Co., Cleveland, Ohio
MORSE, JOHN R., Auditor, U. S. Army, Lakewood, Ohio
MOTT, G. E., Moore Enameling & Mfg. Co., West Lafayette, Ohio

NETH, JOHN H., Wall, Cassel & Groneweg Co., Dayton, Ohio
NEWELL, C. C., Buckeye Steel Castings Co., Columbus, Ohio
NOE, EDWARD T., JR., The Sheffield Corporation, Dayton, Ohio
NOLTE, A. C., The American Tool Works Company, Cincinnati, Ohio

OGILVIE, H. B., The H. B. Ogilvie Co., Columbus, Ohio
OHL, E. R., Independent Explosives Company, Cleveland, Ohio
OLIVE, GEORGE S., George S. Olive & Company, Indianapolis, Indiana
ORT, EMERSON M., Cost Analyist, U. S. Gov't. Engineers, Columbus, Ohio
OSBORN, FRANK A., Public Accountant, Columbus, Ohio
OSTEO, GLEN F., JR., Diamond Milk Products Co., Columbus, Ohio
OVERMAN, J. B., Gerity-Adrian Mfg. Corp., Adrian, Michigan

PACE, THOMAS A., National Advisory Committee for Aeronautics, Cleveland, Ohio
PARKER, R. A., Allen R. Smart & Company, Dayton, Ohio
PATERSON, A. B., Eaton Manufacturing Company, Cleveland, Ohio
PATTERSON, WILLIAM H., The Ohio Fuel Gas Co., Columbus, Ohio
PATTON, DONALD J., The Dobeckmun Company, Cleveland, Ohio
PATTON, WILLIAM H., Cost Analyst, War Department, Sunbury, Ohio
PENWELL, EDGAR W., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
PENZ, A. J., Assistant Professor of Business Organization, Ohio State University, Columbus, Ohio
PETERS, A. L., Certified Public Accountant, Columbus, Ohio
PFLUEGER, J. A., American Lutheran Church, Columbus, Ohio
PITCHER, JAMES, Battelle & Battelle, Dayton, Ohio
POLLEY, RALPH S., Inland Mfg. Div., G.M.C., Dayton, Ohio
POOL, ROBERT M., Department of Accounting, Ohio State University, Columbus, Ohio
POTTS, W. B., Armstrong Furnace Company, Columbus, Ohio
PRICKETT, A. L., Indiana University, Bloomington, Indiana
PROBASCO, KENNETH N., Farm Bureau Cooperative Association, Columbus, Ohio
PULLING, ROBERT C., Ohio Department of Liquor Control, Columbus, Ohio

REEVES, JOHN L., Reeves & Laubscher, Cleveland, Ohio

REIS, KENNETH H., The Dayton Power & Light Company, Dayton, Ohio
RENSE, MARY C., Department of Accounting, Ohio State University, Columbus, Ohio
REX, R. M., Columbus Bolt Works Company, Columbus, Ohio
REYNOLDS, R. J., Summer & Company, Columbus, Ohio
REYNOLDS, WALTON W., Commerce Department, Morris Harvey College, Charleston, W. Va.
RIEDMAYER, A. J., Owens-Illinois Glass Company, Toledo, Ohio
RIGRISH, N. M., Cost Analyst, U. S. Army Engineers, Columbus, Ohio
ROBB, JOHN H., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
ROBINSON, HOWARD F., The American Art Works Incorporated, Coshocton, Ohio
ROHLFING, PAUL G., Wall, Cassel & Groneweg, Dayton, Ohio
ROWE, H. D., Kroger Grocery & Baking Company, Columbus, Ohio
RUDY, R. S., Summer & Company, Columbus, Ohio
RUGGLES, J. W., Inland Mfg. Div., G.M.C., Dayton, Ohio
RUTHERFORD, J. M., Ohio Fuel Gas Company, Columbus, Ohio

SAUERHAMMER, E. C., Navy Department, Cost Inspection Division, Curtiss-Wright Corp., Columbus, Ohio
SCHULTE, CYRIL J., Penker Associates Incorporated, Cincinnati, Ohio
SCHWARTZ, PERRY D., Negotiator, U. S. Engineers, War Department, Columbus, Ohio
SELLERS, GEORGE C., Ernest & Ernst, Columbus, Ohio
SHIELDS, M. E., Lloyd & Shields, Dayton, Ohio
SHIRLEY, JOHN, Arnold, Hawk & Cuthbertson, Dayton, Ohio
SHONTING, D. M., Lutheran Book Concern, Columbus, Ohio
SHRIVE, JOHN E., Tyirin, Shrive & Co., Cincinnati, Ohio
SHRIVER, OTTO R., Public Accountant, Springfield, Ohio
SIDDALL, K. Y., Proctor & Gamble Co., Cincinnati, Ohio
SIEFERMAN, ARTHUR, Arthur Sieferman & Associates, Dayton, Ohio
SIMPSON, CLARK L., U. S. War Department, Cincinnati Ordnance Div., Cincinnati, Ohio
SIMPSON, RAY C., U. S. Engineers, Columbus, Ohio
SLOANE, FRED O., American Magnesium Corp., Cleveland, Ohio
SMITH, HOWARD, Ohio State Tax Department, Columbus, Ohio
SMITH, HOWARD H., Diamond Milk Products, Columbus, Ohio
SMITH, R. B., War Department, Corps of Engineers, Columbus, Ohio
SNYDER, CHARLES H., The Kemper Thomas Co., Norwood, Ohio
SOMERS, FRANK R., Frank R. Somers & Company, Dayton, Ohio
SPENKER, R. W., Owens-Illinois Glass Company, Toledo, Ohio
SPRINGER, GEORGE A., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
STAIGER, H. W., Accountant, Columbus, Ohio
STARR, A. J., Lybrand, Ross Brothers & Montgomery, Cincinnati, Ohio
STEMPF, VICTOR H., Touche, Niven & Co., New York, N. Y.
STEVENSON, ROBERT K., Beckett Paper Co., Hamilton, Ohio
STIRGWOLT, I. G., CPA, Attorney, Columbus, Ohio
STREB, C. A., Union Metal Manufacturing Co., Canton, Ohio
STRELECKY, MICHAEL J., Surface Combustion, Columbus, Ohio

STRENG, ROBERT S., Keller, Kirschner, Martin & Clinger, Columbus, Ohio
STUESSY, H. C., Eaton Manufacturing Company, Cleveland, Ohio

TANNERY, MAJOR FLADGER F., Chief Contract Acct., Dayton, Ohio
TAYLOR, MAJOR JACOB B., Fiscal Division, Washington, D. C.
THOMPSON, J. G., The B. F. Goodrich Co., Akron, Ohio
TOBAR, A. C. "Jack", Hauvell & Paterno, Charleston, W. Va.
TRACY, PAUL A., The Central Ohio Paper Co., Columbus, Ohio
TRACY, R. W., Public Accountant, Columbus, Ohio
TROXELL, JAMES R., Brush-Moore Newspapers, Canton, Ohio
TURBETT, HARRY B., Corning Glass Works, Corning, New York
TURNER, J. E., J. E. Turner CPA, Bellefontaine, Ohio
TURRELL, ALBERT F., Warren Tool Corporation, Warren, Ohio

ULLERY, O., Ohio Fuel Gas Co., Columbus, Ohio
ULLRICH, WILLIAM A., Dayton, Ohio
UNTHANK, E. A., Inland Manufacturing Co., Dayton, Ohio

VAGNIER, JOHN R., Jesse H. Baldwin, CPA, Columbus, Ohio
VAILE, VICTOR E., JR., National Guarantee & Finance Co., Columbus, Ohio
VALE, EMIL, W. C. Tyirin & Co., Cincinnati, Ohio
VERNON, CHARLES W., Curtiss-Wright Corp., Columbus, Ohio
VINCENT, LEO P., U. S. Engineers, Columbus, Ohio
WAIDNER, HERMAN L., Plaskan Div., LOF, Toledo, Ohio
WALL, HUGH E., Wall, Cassell & Groneweg, Dayton, Ohio
WALL, WALTER D., Columbus, Ohio
WATT, ALEX S., Major, Corps of Engineers, Columbus, Ohio
WEINLAND, EDGAR L., Asst. Atty. General, Columbus, Ohio
WERNERT, LAWRENCE A., Owens-Illinois Glass Co., Toledo, Ohio
WESTON, JAMES I., Owens-Corning Fiberglas Corp., Toledo, Ohio
WETZEL, H., Dept. Sociology, Ohio State University, Columbus, Ohio
WHISLER, R. F., Sheffield Corporation, Dayton, Ohio
WHITE, STANLEY C., Lieut. USNR, Cincinnati, Ohio
WHITNEY, W. H., Miami University, Oxford, Ohio
WILKERSON, H. H., Wilkerson & Reynolds, Charleston, W. Va.
WILLCOX, R. S., Department of Accounting, Ohio State University, Columbus, Ohio
WILLIAMS, MAURICE J., Howell & Paterno, Charleston, W. Va.
WILSON, R. V., Wilson & Harting, Cleveland, Ohio
WOLFE, PAUL R., Kline Manufacturing Co., Columbus, Ohio
WOLFE, T. S., The F. J. Heer Printing Co., Columbus, Ohio
WONNEL, T. C., Kemper Thomas Co., Norwood, Ohio

YETTER, H. C., Owens-Illinois Glass Company, Toledo, Ohio

COLLEGE OF COMMERCE CONFERENCE SERIES

No. 1938

1. Proceedings of the Second Annual Conference of Secretaries of State and Local Trade Associations *(out of print)*
2. Proceedings of the First Personnel Institute (*out of print*)
3. Proceedings of the First Institute on Accounting (*out of print*)
4. Proceedings of the First Institute on Credit (*out of print*)
5. The Ohio Conference on Statisticians on Business Research, 1938 (*out of print*)

1939

6. Proceedings of the Third Annual Conference of Secretaries of State and Local Trade Associations *(out of print)*
7. Proceedings of the Second Institute on Accounting (*out of print*)
8. The Ohio Conference of Statisticians on Business Research, 1939 (*out of print)*
9. Proceedings of the Second Personnel Institute (*out of print*)

1940

10. Proceedings of the Fourth Annual Conference of Executives of State and Local Trade Associations *(out of print)*
11. Proceedings of the Third Institute on Accounting (*out of print*)
12. Proceedings of the Second Biennial Institute on Credit *(out of print)*
13. The Ohio Conference of Statisticians on Business Research, 1940

1941

14. Proceedings of the Fifth Annual Conference of Executives of State and Local Trade Associations
15. Proceedings of the Fourth Institute on Accounting (*out of print*)
16. Proceedings of the Third Personnel Institute *(out of print)*
17. The Ohio Conference of Statisticians on Business Research, 1941

1942

18. Proceedings of the Sixth Annual Conference of Executives of State and Local Trade Associations
19. Proceedings of the Fourth Personnel Institute
20. Proceedings of the Fifth Institute on Accounting *(out of print)*
21. Proceedings of the First Advertising Conference *(out of print)*
22. The Ohio Conference of Statisticians on Business Research, 1942

1943

23. Proceedings of the Fifth Personnel Institute
24. Proceedings of the Sixth Institute on Accounting
25. Proceeding of the Seventh Annual Conference of Executives of State and Local Trade Associations

Available from: Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus 10, Ohio